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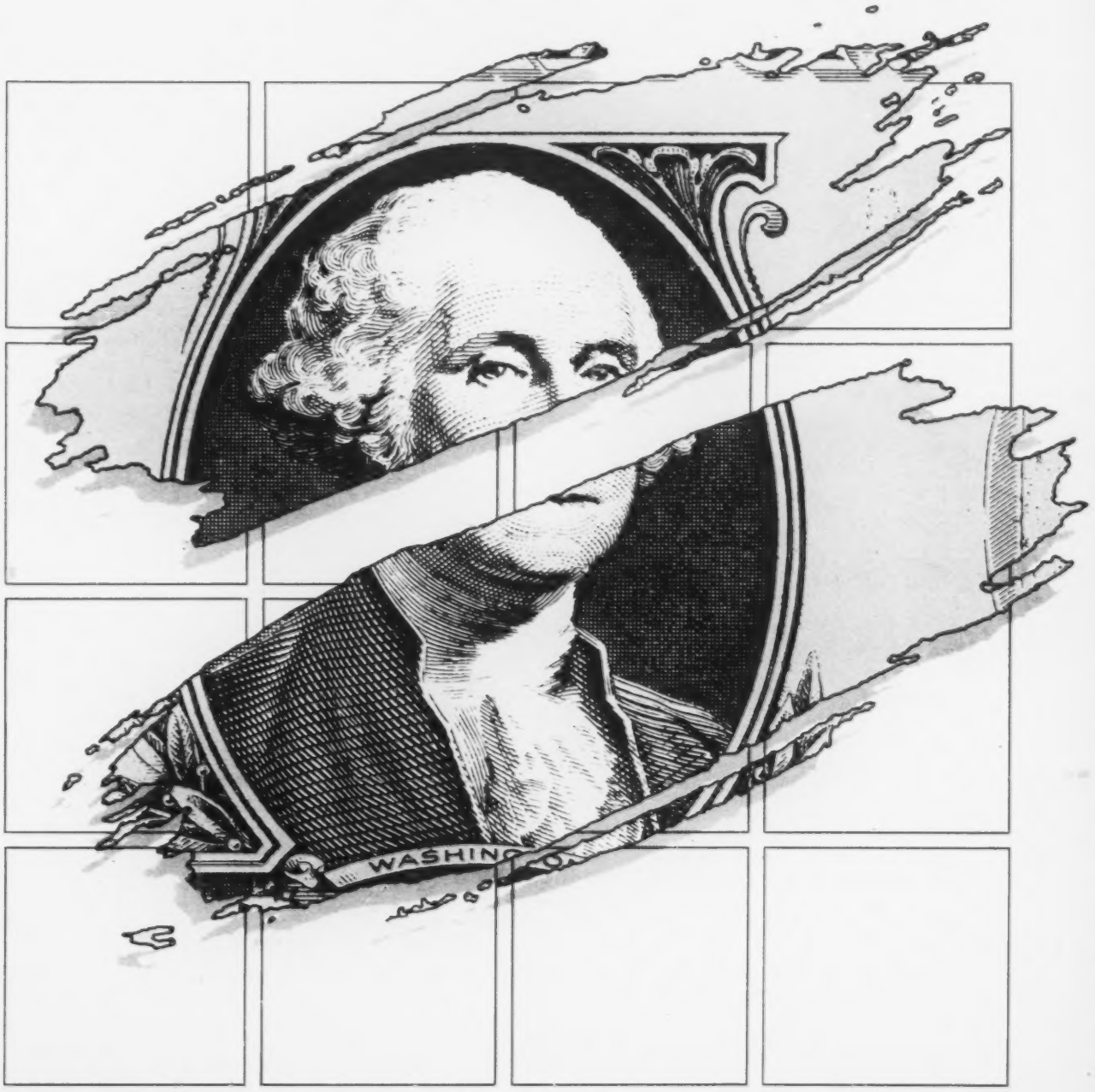
The Nation

1985 IV–1987 III

Economic Forecasting Center

Georgia State University. College of Business Administration. November 1985



SECTOR SLUMPS BUT NO ECONOMY-WIDE DOWNTURN SEEN IN NEXT TWO YEARS

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Recent Activity

In the past year business sales increased 5.2% while business inventories expanded only 1.7%. Such a discrepancy is not unusual following a period of inventory excesses or at the beginning of an economic upturn, when sales outrun expectations. At this stage of the expansion, however, this magnitude of inventory restraint is surprising, for there was little evidence of inventory excesses in the previous year.

Three factors appear to account for the unusual restraint on inventory investment. First, automobile financing incentives during the summer were more favorably received by the consumer than anticipated by the automobile industry. As a result of rapid sales, inventories on dealers' lots were sharply depleted, leading to rapid production schedules for the fourth quarter. At the present time, however, automobile sales have fallen to only 6.3 million domestic units at annual rates in October along with 3.3 million units of imported automobiles. Even with a projected lessening of import penetration in the months ahead, this suggests that automobile sales during the fourth quarter will be less than 1.8 million as compared to an anticipated production run of 2.3 million. Therefore, the inventory drawdown from unexpected automobile sales no longer will be a factor in economic activity following the early months of 1986, after the automobile parts dealers rebuild their materials' inventories.

Second, surprising sluggishness in manufacturing activity during the first half of 1985 sharply reduced manufacturing anticipations of sales ahead. This reduced assessment of sales potential unquestionably reduced the inventory desires of the manufacturing industry, creating more significant weakness in goods production domestically than otherwise would have prevailed. Manufacturing uncertainties also are reflected in the latest capital expenditures surveys, which showed desires to reduce capital spending by 5.4% in 1986. If such a spending program materializes, the manufacturing recession that developed in 1985 will be hard to reverse.

Third, prices have been falling for some raw materials and finished goods. The book value of inventories during the third quarter was $6.2 billion above the replacement cost of those inventories. Obviously, the effective economic cost of carrying inventories when their prices are falling is sharply enhanced. As prices stabilize, desired inventory holdings should increase.

Of course, once manufacturers discover that inventory liquidations domestically contributed to the orders and production woes that they suffered in 1985, they may become less timid about building production and investing in capital. Already, some of the import impacted industries, such as apparel and textiles, are receiving increased orders. Moreover, the dollar has now declined significantly in value against other currencies. Assuming the dollar's value will not rebound significantly, the erosion of manufacturing activity as a result of import penetration should end. If so, most American manufacturing will be ending recessionary performance in the fourth quarter of 1985 before engaging in a modest amount of economic expansion in 1986.

Because of intervention by foreign ministers in five major countries, the dollar has fallen in value more sharply than anticipated three months ago. However, the trade weighted value of the dollar is not below values that would be justified by projected economic conditions in the middle of 1986. In addition, the dollar intervention has disrupted the use of the American currency as an instrument of liquidity around the world. By reducing the dollar's use for liquidity purposes in German, Japanese, and other portfolios, the dollar lost some of its luster even without dollar weakening economic fundamentals coming into play. At 2.60 German marks and 205 Japanese yen, the dollar's value is at a point that will eliminate further significant increases in import penetration. However, the competitive position of American producers has not improved sufficiently to reverse the tide. In addition, the absence of increased sales into the United States will slow most of the industrialized world. This will hamper the ability of American exporters to sell abroad, partially offsetting the favorable impact of increased price competitiveness. Most of the benefit from the reduced dollar's value will be to those companies already selling abroad or owning assets abroad. In effect, much of the improvement in net exports will be caused by improved factor incomes rather than diminished merchandise trade deficits.

As manufacturing ends its slump, some inventory building will develop. As a result, more substantial contributions to economic activity will be generated through inventory investments and through net exports in 1986 than in 1985. Net exports also will be a significant contributor in 1987 although inventory rebuilding once again should diminish at that time. Unfortunately, while most manufacturers will be ending recessionary performances, especially in the technology area, recession should begin for some consumer durable manufacturers and for commercial construction and builders of rental property by the end of 1986.

The consumer clearly is overextended. Savings rates have plummeted to less than 3% in the third quarter as consumers took advantage of especially favorable financing terms to procure automobiles. However, weakening interest rates have sharply reduced earnings from property income. During the second half of 1985, interest income is actually declining. Only modest increases are anticipated in 1986. In addition, concerns about the deficit will significantly limit the expansion of government transfers. Therefore, even a rebound in wage income will be insufficient to significantly increase personal income. At the same time, inflationary pressures are expected to increase. The declining dollar should cast some upward price pressures upon consumer durables and nondurables while meat prices are expected to advance following a dismal collapse during a period of herd liquidations in 1985. The result will be a 1% slower rate of growth in disposable income after inflation than during 1985.

Of course, savings could continue to plunge. Recent gains in the stock market have preserved a favorable relationship between household assets and consumption. However, household net worth has been slowing its rate of gain in the 1980s to only a 1.4% annual increase after inflation. This is down significantly from 3.8% average annual gains during the 1970s. Yet, consumer spending continues to grow at similar inflation adjusted rates in both periods. Changing demographic profiles, which currently show the fastest growing age group to be the 25-35 year old household forming group, explains some of the reduced rate of savings. Some consumers also may believe that purchases currently are especially favorable because they anticipate higher inflation ahead. Certainly, these factors leading to unusually low rates of savings could persist in the next two years. More likely, some consumer retrenchment will develop. Purchases of automobile vehicles, including light trucks, reached an historical peak in 1985. Retrenchment from those high levels would not be surprising. Some retrenchment from rapid rates of procurement for furniture, clothing, and even meals away-from-home could develop. In short, consumer spending, especially for durables, is vulnerable to an economic correction. A modest correction is anticipated in our projections for the next two years.

Also vulnerable is construction activity. Single-family housing has been struggling despite the most favorable affordability rates since 1979. Those affordability rates are expected to remain favorable during the next two years, but the backlog of pent-up housing demand has been exhausted. Single-family housing should remain near 1.1 million starts during the next two years.

Rental properties pose a more serious problem. Partially in response to favorable tax laws, rental building has exceeded housing needs in many metropolitan areas. The rental vacancy rate has increased to a 20-year high. Retrenchment is anticipated in rental property during the next two years. If tax reform materializes and sharply reduces the investment tax credit possibilities and accelerated depreciation, the correction in rental construction could be even more severe than currently anticipated.

Of greatest concern, however, is commercial construction. Here, the Coldwell Banker survey shows a vacancy rate of 17.4% for downtown metropolitan areas and 20.2% for suburban areas. These vacancy rates continue to increase, showing that current construction activity is exceeding absorption rates. Moreover, absorption rates are at unusually high levels because of rapid increases both in service employment and in the square footage desired per worker. Some new buildings are planned with up to 250 square feet per work area. Further increases in the capital available per office worker are not anticipated. Moreover, the weakening in consumer spending growth during the next two years should slow the growth of office employment jobs. In addition, any changes in tax laws should unfavorably alter the desire to create new buildings, at least until rental rates increase sharply. Yet, rental rates cannot be sharply increased as long as inventories are so high. The result should be a protracted slump in commercial construction beginning in the second half of 1986.

Industrial and retail construction are not exempt from the anticipated correction, although adjustments there should be small. Retail employment, and retail square footage, has been growing 1.5 times as rapidly as consumer spending. Some slowing in retail construction would be anticipated even without any correction in consumer spending patterns. Also, industrial vacancy rates have creeped up to 5.0%, although construction here is only slightly ahead of

current absorption. If industrial activity picks up in 1986, industrial construction may not require any correction.

These rolling adjustments between sectors will prevent the U. S. economy from suffering any boom-bust syndrome. Although interest rates may move upward early in 1986 as inventories rebuild, investment needs will begin diminishing again in the latter part of 1986 as construction gradually subsides. Indeed, the Federal Reserve may decide to tolerate more rapid than normal money growth for a period of time early in 1986 to prevent any significant upward movement of interest rates. The danger of this policy will be a more rapid decline in the value of the dollar, which would aid the manufacturing recovery, and a more rapid acceleration of inflationary pressures, especially early in 1987. This Federal Reserve policy is not assumed in our forecast, but even if it materialized, the impact would merely be slightly greater economic activity and somewhat more inflation in the next two years along with a weaker dollar than currently is contemplated. The impact of such Federal Reserve activity upon housing or other construction is expected to be slight given the overbuilt environment described above. Moreover, it is unlikely that rapid money growth will prevent the consumer from retrenching.

Certainly, a move toward restrictive Federal Reserve policy could generate a more severe economy-wide slump than currently is projected. However, such a Federal Reserve policy is unlikely. Inflation is only gradually intensifying while protectionist concerns remain strong in the Congress. A Federal Reserve tightening almost certainly would increase relative real rates of interest in the United States, causing a rebound in the value of the dollar and a strengthening of those protectionist desires. Even if the Federal Reserve would be willing to tolerate a recession in order to avoid any uptick of inflationary pressures, it is not likely that the Fed will accept increasing protectionist legislation.

Budgetary policy almost certainly will be more restrained than in the past two years. Budgetary policy became even more expansionary early in 1985 but current concerns about deficits should prevent any additions to stimulus. On the other hand, the Congress already is becoming nervous about legislating significant restraint in 1986. Most of their budgetary restraint target are for years beyond the next fiscal year. Some budgetary restraint is anticipated, but the restraint will be gradual. While this will have a slowing impact upon the U. S. economy, the magnitude of this restraint should be modest.

In the absence of wrenching changes in fiscal and monetary policy, the business cycle must be determined by internal dynamics. These dynamics include the relationship of consumption to wealth, capacity utilization, vacancy rates on construction products, inventory relationships relative to sales, purchases of durables relative to replacement needs, internally generated cash relative to cash needs, in the corporate sector, and similar dynamics. In the absence of policy-oriented stimulus and restraint, these dynamics can generate recessionary behavior in sectors of the economy without necessarily creating economy-wide recessions. This is exactly the process through which the U. S. economy currenctly is performing. Manufacturing felt its recession in 1985. Consumer durables and construction will feel their recessions beginning in 1986 when some manufacturing will be rebounding and the economy as a whole may be able to officially avoid a recession. Such a period of relative economic stagnation is not normal in the United States, although such sluggish activity has been experienced in Europe during the past decade.

The interest rate outlook in such an economy remains relatively favorable. Currently, foreigners are providing an unusually large portion of savings and they may become dissuaded from continuing this process as the dollar falls in value. If so, interest rates will rise in the United States to discourage investment and increase savings sufficiently to offset the absence of foreign capital sources. However, the projected slump in consumer durables and in commercial construction will be generating an increase in household savings and a decrease in economy-wide investment without regard to changing interest rates. In addition, gradual restraint in federal government borrowings could lead to reduced interest rates excluding foreign investor performance. Although a modest uptick in interest rates is anticipated in the first six months of 1986, when dollar concerns should continue to plague foreign investors while inventories are building, shifts in domestically desired savings and investment should be sufficient to re-establish declining interest rates later in the year and into 1987.

This interest rate projection may run counter to inflation projections in the next two years. The weakening dollar almost certainly will generate some increasing price pressures. Now that oil prices are falling in those parts of the world not ruled by dollar formulated currencies, oil demand should increase noticeably. This could eliminate the oil glut toward the end of 1987. Grain prices are expected to remain unusually weak well into 1987 but herd liquidations should prove to be sufficient to generate rising meat prices in 1986. Cheap feed costs will contain the magnitude of any meat price increase, however. At the same time, employment strength in retailing and service sectors should begin to create wage pressures. Some evidence of rising wages in those sectors already was apparent in third quarter statistics. This will lead to gradual acceleration in hourly wage costs and in unit labor costs. This will be intensified by weak productivity performance when sales slow during the next two years. The results should be a profit squeeze sometime in 1986 or early 1987 followed by gradually intensifying cost-induced inflationary pressures. While CPI estimates for the next two years remain moderate, underlying intensifying inflationary pressure should be developing.

The equity formula suggests that the stock market should trade in excess of 1400 during this period of rolling adjustments. The major force leading to higher stock prices is the improvement in interest rates. However, reduced interest rates have increased the returns to equity ownership at the expense of returns earned by debt holders. While the sluggish economy unquestionably is reducing overall returns to capital, debt holders are experiencing virtually all the reduced gains. This is an economic environment which provides no obvious equity leadership but provides an equity climate that permits further gains in stock prices. During the next year, investors probably would be more rewarded by investing in long-term debt instruments to garner the capital gains as interest rates fall then to increase equity holdings.

In short, the standard business cycle will be subverted by subsector cyclical performances in the next two years. Strength will reappear in some manufacturing industries while it will vanish from consumer durables and construction. These rolling adjustments will prevent any significant spurt in economic activity during the next two years but will also restrain interest rates and contain inflation, despite gradually intensifying cost pressures. An economy-wide recession still cannot be ruled out, for several quarters show performance that are not statistically greater than zero. But the outlook for rolling adjustments rather than a recession appears to be the most likely outcome.

Recent Performance

Economic activity was surprisingly close to anticipations in the summer quarter, but as the result of two offsetting errors. Inventory liquidations were more substantial than anticipated while government purchases were much larger than had been projected. As a result, nominal and inflation adjusted GNP were surprisingly close to anticipations.

Inventory liquidations appear to be the result of changing perceptions of future sales and the increased cost of holding inventories with falling prices. These shifts in sales expectations are at variance with our own projections of sales prospects for manufacturing. Presumably, they are temporary. If not, some adjustments to expected sales will be made.

The sharp increase in government purchases largely reflects the unexpectedly large production of grains that found their way into the Commodity Credit Corporation bins. These higher than expected government purchases should persist, leading to larger expenditures for goods and services than originally projected.

An error on the income side has been our handling of interest earnings. Our estimates related to current interest rate movements, which would indicate a rebound in interest income during the third quarter. In fact, interest income fell an additional $7 billion. Apparently, this is the result of the increased use of savings certificates by the household sector. Thus, interest income continues to decline more than six months after interest rates changed direction. This interest rate income timing has been adjusted in our current procedures. The result of this adjustment is to create sharply lower property income and significantly higher corporate profits in the third quarter and into 1986. As interest rates now are expected to remain subdued, the same income distribution effects are anticipated for the remainder of the outlook. This causes unusually low savings rates, suggesting that households differentiate between wage income and property income in making their near-term consumption decisions. Over time, the reduced returns from property income should begin to restrain consumer spending.

Higher corporate profits should lead to greater federal government receipts. Of course, increased expenditures for agriculture prevent these improved receipts from substantially reducing government deficit.

Surprisingly, the better profit performance did not lead to higher equity values than projected during the third quarter. Of course, higher returns to equity necessitate stronger projections for equity values in the next couple of quarters. This suggests that the current spurt in the stock market is justified by the current profit performance that is being generated by reduced interest costs.

Housing starts fell below anticipations for reasons that remain unclear. One possible explanation is that fundamental housing demand is gradually weakening and that substantially lower interest rates now will be necessary merely to sustain prevailing starts. This possible explanation has not yet been incorporated in our analysis.

More rapid growth in the money stock than anticipated appears to be the result of household portfolio adjustment rather than any policy-induced money

growth. For that reason, the policy implications from this rapid growth should be minor.

While the recent performance has been surprisingly close to anticipations, these offsetting errors require close scrutiny. Moreover, adjustments made for income distribution should enhance the accuracy of forecasting on equity values, capital accumulation, and consumer spending in the quarters ahead.

Assumptions

Congress continues to debate whether changes will occur in the budgetary process and whether there will be meaningful tax reform. Most of the impact of those assumptions are expressed in Table 5 and Table 6. General revenue sharing was assumed to be discontinued in the next fiscal year. Civilian and military pay was expected to be frozen through 1986 although a 4% pay increase for both types of employees was anticipated for 1987. Of course, the post office has a contract arrangement that permits wage increases in excess of those other projections. Some slowing in the growth of transfer payments for veterans, government retirees, and supplement social programs also was incorporated. However, a comprehensive budget restraint program was not assumed. In addition, no significant changes in taxes were assumed. These assumption are largely consistent with those used in our forecast of three months ago.

The Federal Reserve is expected to be slightly restrictive early in 1986 to contain rapid month growth. During the latter part of 1986, reduced money demand should permit the Federal Reserve to regain its money growth targets without any further restraining effects. Substantial Federal Reserve ease is not anticipated.

Some other assumptions are as follows:

a) Social security taxes are scheduled to increase to 7.15% for the employer and employee on a wage base of $42,000 in 1986. In 1987, the wage base is expected to increase to $44,000. Cost-of-living adjustments for social security recipients are assumed to be 3.1% in the first quarter of 1986 and 4.1% in the first quarter of 1987.

b) Excise taxes were assumed to be unchanged in the two-year forecast period. This meant that cigarette taxes would not be rolled back nor would there be an import fee on petroleum products. Postal rates were assumed not to change in the forecast period.

c) Oil prices were expected to drift lower after a fall spurt late in 1985. The effective price of a delivered barrel was expected to reach $25 in 1986 and gradually firm to $25.50 in 1987.

d) World trade is expected to grow 4% in 1986 and in 1987. No unusual crop failures or other demand distorting conditions were assumed. No other significant intervention to artifically reduce the dollar's value was assumed.

e) No significant strike activity was assumed in the forecast.

SUMMARY AND CONCLUSION

The consumer is overextended and will need to retrench. As a result, consumer durables should enter a mild slump early in 1986 and continue to show weakness into 1987. Also, construction activity is expected to reach a peak in the summer months of 1986 and trend downward through 1987.

Offsetting the consumer and construction weakness will be the temporary need to rebuild inventories during the fourth quarter of 1985 and early in 1986. In addition, the sharp decline in the dollar's value should be sufficient to restrain further import penetration in the United States. This will cause most manufacturing to gradually improve from its 1985 recessionary behavior. These plusses nearly offset the sources of weakness, leading to modest 2.9% GNP growth in 1986 followed by a near recessionary 1.4% gain in 1987.

In fact, economy-wide recessions probably are not likely during the forecast period. Instead, sector adjustments will continue to evolve with some areas of strength offsetting other areas of weakness. This will result in a relatively stagnant economic profile similar to the performance experienced by Europe in the 1970s.

This sluggish performance will help to generate further weakness in interest rates later in 1986 and in 1987 after only a modest blip during the period of inventory restocking. At the same time, falling interest rates will continue to preserve surprisingly high returns to equity ownership and high values on the stock exchanges relative to the sluggish overall performance of the economy. Indeed, our formulas anticipated the record performance of the stock market in the current quarter. Significant gains in equity values from current levels are not expected, however.

Inflation will gradually rekindle as a result of the dollar's weakness and some cost pressures being generated in the trade and service sectors. In addition, meat prices should reverse their considerable declines of 1985 in the next two years. While inflation will only gradually re-intensify, the seeds of more dramatic gains in inflation beyond 1987 will have been sown.

Of course, the silver lining in this outlook is that necessary economic adjustments may be accomplished without an economy-wide recession. Those maintaining that vigorous expansion can result, however, must assume more dramatic changes in the trade balances than is contemplated in this forecast. For those trade balance gains to be achieved, greater inflationary pressures also must be forthcoming.

Table 1.

Georgia State University
College of Business Administration
Economic Forecasting Center
November 1985

U.S. Expenditures for 1985-II and III with Forecasts for 1985-IV through 1987-III

		1985			1986				1987			Percent Change			Annual		
		II	III	IV	I	II	III	IV	I	II	III	84-85	85-86	86-87	1985	1986	1987
1.	Personal Consumption Expenditures	2493.0	2536.5	2563.6	2605.3	2644.9	2680.5	2725.8	2760.6	2800.6	2845.5	7.2	6.1	6.0	2509.9	2664.1	2825.1
2.	Autos and Parts	157.6	173.8	156.0	156.2	157.5	156.2	158.6	157.5	159.2	160.6	7.3	-2.3	1.9	160.8	157.1	160.1
3.	Other Durable Goods	181.6	181.8	184.5	186.4	187.8	188.6	189.9	189.8	190.3	191.6	7.6	3.5	1.6	181.8	188.2	191.2
4.	Nondurable Goods	891.9	895.6	911.2	922.9	933.3	940.5	953.1	961.3	970.7	983.1	4.3	4.9	4.3	894.0	937.5	977.8
5.	Services	1261.9	1285.3	1311.9	1339.8	1366.3	1395.2	1424.2	1452.0	1480.4	1510.2	9.2	8.5	8.3	1273.4	1381.4	1496.0
6.	Gross Private Domestic Investment	643.2	622.8	660.4	689.1	704.6	703.6	707.3	703.3	709.0	708.1	0.9	9.0	1.0	643.3	701.2	708.1
7.	Residential Struct.	158.0	163.4	164.3	167.5	168.1	166.6	164.0	168.9	174.9	169.8	4.1	3.9	2.2	160.2	166.6	170.2
8.	Other Structures	167.3	166.8	172.3	176.7	180.5	183.2	184.3	184.9	184.7	185.0	11.4	8.1	2.2	167.6	181.2	185.2
9.	Producers' Durables	299.0	300.6	303.5	308.5	314.2	318.0	322.3	326.0	329.6	333.1	8.2	6.0	5.0	297.8	315.8	331.6
10.	Change in Inventories	17.9	-8.1	20.3	36.4	41.8	35.8	36.7	23.5	19.8	20.2	---	---	---	17.7	37.7	21.1
11.	Net Export of Goods and Services	-94.0	-89.2	-91.2	-97.3	-92.3	-88.5	-83.6	-84.1	-79.6	-79.4	---	---	---	-87.2	-90.4	-79.3
12.	Exports	347.7	347.6	357.7	365.7	374.4	378.9	387.8	394.4	403.2	410.8	-3.0	6.6	8.1	353.4	376.7	407.2
13.	Imports	441.6	436.7	448.9	463.0	466.7	467.4	471.4	478.5	482.9	490.2	2.8	6.0	4.1	440.6	467.1	486.5
14.	Government Purchases of Goods and Services	810.9	845.9	859.0	870.0	883.8	901.4	912.9	931.0	945.7	961.3	10.6	7.9	6.8	826.9	892.0	952.9
15.	Federal	324.2	347.0	349.8	351.4	354.7	363.3	368.7	378.7	384.7	391.1	13.5	7.2	7.9	335.2	359.5	387.9
16.	National Defense	241.1	253.1	257.5	261.9	267.6	273.8	279.6	287.0	293.2	299.2	11.2	9.9	9.4	246.4	270.7	296.3
17.	Other	83.2	93.9	92.3	89.5	87.1	89.5	89.1	91.7	91.5	91.9	20.2	0.0	3.2	88.8	88.8	91.6
18.	State and Local	486.7	498.9	509.2	518.6	529.1	538.1	544.2	552.3	561.0	570.2	8.8	8.3	6.1	491.7	532.5	565.0
19.	Gross National Product	3853.1	3916.1	3991.8	4067.1	4141.0	4197.0	4262.4	4310.8	4375.7	4435.5	6.3	7.0	5.8	3892.9	4166.9	4406.7
20.	Amount of Change	42.5	63.0	75.7	75.3	73.9	56.0	65.4	48.4	64.9	59.8	---	---	---	230.1	274.0	239.8
21.	% Change*	4.5	6.7	8.0	7.8	7.5	5.5	6.4	4.6	6.2	5.6	---	---	---	6.3	7.0	5.8
22.	% Real Change*	1.9	3.3	3.7	3.4	3.2	0.8	1.9	0.1	2.3	1.2	---	---	---	2.5	2.9	1.4
23.	% Price Change*	2.6	3.3	4.1	4.2	4.1	4.7	4.4	4.5	3.7	4.3	---	---	---	3.7	4.0	4.3
24.	Implicit Price Deflator	230.55	232.44	234.80	237.23	239.64	242.42	245.06	247.76	250.04	252.69	3.7	4.0	4.3	231.72	241.09	251.48
25.	Change in Final Sales	65.2	89.0	47.3	59.2	68.5	62.0	64.5	61.6	68.6	59.4	---	---	---			
26.	GNP in 1972 Dollars	1671.3	1684.8	1700.1	1714.4	1728.0	1731.3	1739.3	1739.9	1750.0	1755.3	2.5	2.9	1.4	1679.9	1728.3	1752.2

Table 2.

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November 1985

U.S. Real Expenditures for 1985-II, and III with Forecasts for 1985-IV through 1987-III

		1985			1986				1987			Percent Change			Annual		
		II	III	IV	I	II	III	IV	I	II	III	84-85	85-86	86-87	1985	1986	1987
1.	Personal Consumption	1102.1	1115.2	1114.9	1122.4	1129.1	1131.5	1138.3	1141.1	1147.0	1153.3	4.0	2.3	1.8	1105.3	1130.3	1150.4
2.	Durable Goods	190.1	199.2	191.3	191.8	192.6	191.5	192.3	191.0	191.5	192.0	7.8	0.1	-0.1	191.9	192.1	191.8
3.	Nondurable Goods	403.2	403.9	407.0	409.3	411.5	411.5	413.6	414.3	416.2	418.2	2.4	2.1	1.4	403.2	411.5	417.3
4.	Services	508.7	512.1	516.6	521.3	525.0	528.5	532.4	535.8	539.3	543.1	4.0	3.2	2.8	510.2	526.8	541.3
5.	Gross Private Domestic Invest.	289.5	278.1	291.6	301.0	304.8	301.6	300.1	296.0	296.0	293.2	-0.7	4.9	-2.5	287.8	301.9	294.2
6.	Residential Structures	60.9	62.5	62.2	62.8	62.5	61.5	60.0	61.3	62.9	60.5	2.0	0.5	-1.2	61.4	61.7	60.9
7.	Other Structures	62.1	60.9	62.4	63.3	64.0	64.3	64.0	63.6	63.0	62.5	8.3	3.8	-1.7	61.6	63.9	62.8
8.	Producers' Durables	158.2	156.8	157.1	158.7	160.3	161.0	161.7	162.2	162.7	162.9	5.5	2.8	1.5	156.1	160.4	162.9
9.	Change in Inventories	8.3	-2.1	9.9	16.2	18.0	14.8	14.4	8.9	7.4	7.3	---	---	---	8.8	15.9	7.7
10.	Net Export of Goods and Services	-33.8	-34.0	-33.7	-36.7	-35.2	-33.8	-31.4	-30.8	-27.9	-27.4	---	---	---	-32.5	-34.3	-27.8
11.	Exports	137.9	138.1	141.6	143.9	146.7	147.3	149.5	150.5	152.5	153.4	-3.9	4.6	4.2	140.3	146.9	153.0
12.	Imports	171.8	172.1	175.3	180.6	181.9	181.1	180.9	181.3	180.4	180.8	7.3	4.8	-0.2	172.8	181.1	180.8
13.	Gov't Purchases of Goods & Services	313.5	325.5	327.3	327.7	329.3	332.0	332.3	333.7	334.9	336.2	5.7	3.5	1.5	319.3	330.3	335.3
14.	Federal	129.7	139.4	139.9	139.5	140.0	142.0	142.9	144.2	145.1	146.1	10.0	4.8	3.2	134.7	141.1	145.6
15.	State & Local	183.9	186.1	187.4	188.2	189.3	190.0	189.4	189.5	189.8	190.1	2.8	2.5	0.3	184.6	189.2	189.7
16.	Gross National Product	1671.3	1684.8	1700.1	1714.4	1728.0	1731.3	1739.3	1739.9	1750.0	1755.3	2.5	2.9	1.4	1679.9	1728.3	1752.2
17.	Final Demand	1663.0	1686.9	1690.2	1698.2	1710.0	1716.5	1724.9	1731.0	1742.6	1748.0	3.5	2.5	1.9	1671.1	1712.4	1744.5
18.	Private Domestic Product	1496.5	1509.1	1523.8	1537.3	1549.9	1552.7	1560.2	1560.1	1569.8	1574.4	2.9	3.0	1.4	1504.5	1550.0	1571.6

Table 3.

Georgia State University
College of Business Administration
Economic Forecasting Center
November 1985

Income Related U.S. GNP Components for 1985-II and III with Forecasts for 1985-IV through 1987-III

		1985			1986				1987			Percent Change			Annual		
		II	III	IV	I	II	III	IV	I	II	III	84-85	85-86	86-87	1985	1986	1987
1.	Compensation of Employees	2305.9	2337.2	2381.4	2426.3	2463.5	2495.7	2532.9	2580.6	2620.6	2661.1	7.0	6.7	6.5	2324.3	2479.6	2640.0
2.	Wage and Salary	1909.5	1935.2	1972.5	2005.7	2036.3	2062.1	2092.9	2128.4	2161.5	2194.6	6.7	6.5	6.2	1925.0	2049.3	2177.2
3.	Manufacturing	447.9	450.2	455.5	460.6	464.5	468.4	474.2	479.7	485.8	492.0	3.8	3.7	4.7	450.4	466.9	488.9
4.	Other Commodity-Producing	146.3	147.2	149.7	152.0	153.8	154.2	154.9	156.6	158.9	158.9	8.3	4.8	2.6	146.6	153.7	157.7
5.	Distributive Industries	455.7	460.6	469.6	477.2	484.7	491.6	499.8	507.2	514.8	523.0	6.2	6.5	6.3	458.7	488.3	519.2
6.	Service Industries	489.0	500.9	515.6	527.8	539.3	549.3	560.4	572.8	585.4	598.8	9.5	9.8	8.8	495.7	544.2	592.0
7.	Military	48.9	49.1	49.1	49.2	49.5	49.7	50.2	52.0	52.1	52.2	4.7	1.4	5.2	49.0	49.7	52.3
8.	Civilian Gov't	321.8	327.2	333.0	338.9	344.5	348.9	353.4	360.1	364.5	369.7	7.1	6.7	6.0	324.7	346.4	367.2
9	Supplements	396.3	402.1	408.9	420.6	427.2	433.6	440.0	452.8	459.1	466.5	8.2	7.8	7.5	399.3	430.4	462.8
10.	Proprietors' Income	160.7	154.4	162.0	168.3	172.7	175.3	177.0	174.2	172.6	176.1	3.1	8.9	1.1	159.2	173.3	175.2
11.	Business and Professional	137.3	141.9	149.2	150.7	153.2	154.1	155.4	154.1	154.8	155.2	11.4	9.1	1.2	140.6	153.4	155.2
12.	Farm	23.4	12.5	12.8	17.6	19.5	21.2	21.6	19.3	17.8	20.9	-33.9	7.4	-0.8	18.6	20.0	19.8
13.	Rental Income	66.7	67.7	69.3	72.1	73.6	74.9	76.2	77.6	79.0	80.5	7.4	10.5	7.5	67.1	74.2	79.7
14.	Net Interest	274.7	267.8	266.8	269.7	274.3	276.9	278.8	278.3	280.9	280.5	-3.5	0.3	2.0	274.1	274.9	280.5
15.	Corp Profits Adj	298.5	315.6e	328.2	328.9	334.3	336.8	344.3	332.8	336.1	335.4	8.0	8.9	0.2	308.7	336.1	336.8
16.	National Income	3106.5	3142.7e	3207.7	3265.3	3318.4	3359.6	3409.2	3443.5	3489.2	3533.6	5.9	6.5	5.2	3133.4	3338.1	3512.2
17.	Indirect Business Tax	327.4	327.9	333.7	340.9	347.0	353.4	360.8	366.8	373.3	380.6	7.4	7.3	7.6	326.6	350.5	377.3
18.	Capital Consumption Adjusted	-36.0	-42.1	-44.9	-48.7	-50.9	-52.4	-52.4	-52.6	-52.0	-50.1	---	---	---	-38.0	-51.1	-51.2
19.	Capital Consumption Allowances	463.7	480.5	492.5	505.7	517.7	529.5	541.8	554.1	566.2	578.0	13.0	11.0	9.3	471.7	523.7	572.4
20.	Business Transfers	19.0	19.5	20.0	20.5	21.0	21.6	22.1	22.7	23.2	23.8	11.1	10.6	10.4	19.3	21.3	23.5
21.	Net Gov't Subsidies	-13.8	-7.4	-9.2	-10.3	-11.8	-11.9	-13.4	-13.0	-13.5	-14.1	-20.7	4.9	19.2	-11.3	-11.9	-14.1
22.	Stat Discrepancy	-13.7	-5.0e	-8.0	-6.3	-0.4	-2.8	-5.7	-10.7	-10.7	-16.3	---	---	---	-8.7	-3.7	-13.4
23.	Gross National Product	3853.1	3916.1	3991.8	4067.1	4141.0	4197.0	4262.4	4310.8	4375.7	4435.5	6.3	7.0	5.8	3892.9	4166.9	4406.7

Table 4.

Georgia State University
College of Business Administration
Economic Forecasting Center
November 1985

Derivation of U.S. Personal Income for 1985-II and III with Forecasts for 1985-IV through 1987-III

	1985			1986				1987			Percent Change			Annual		
	II	III	IV	I	II	III	IV	I	II	III	84-85	85-86	86-87	1985	1986	1987
1. National Income	3106.5	3142.7	3207.7	3265.3	3318.4	3359.6	3409.2	3443.5	3489.2	3533.6	5.9	6.5	5.2	3133.4	3338.1	3512.2
2. Less: Corp. Profits Adj.	298.5	315.6	328.2	328.9	334.3	336.8	344.3	332.8	336.1	335.4	8.0	8.9	0.2	308.7	336.1	336.8
3. Social Insurance	334.5	338.6	345.1	358.7	363.9	368.1	372.8	388.1	393.7	399.4	10.1	8.6	8.4	337.1	365.9	396.4
4. Plus: G'ment Transfers	420.5	425.7	428.2	434.5	438.4	442.3	446.7	458.1	463.1	467.4	6.1	3.9	5.6	423.8	440.5	465.2
5. Old Age, Survivors, etc.	249.9	254.9	257.6	262.7	265.5	268.8	272.1	281.3	284.2	287.6	6.6	5.6	7.0	253.0	267.3	286.1
6. Unemployment Benefits	15.8	15.0	14.4	13.6	13.5	13.6	13.6	13.8	14.2	14.2	-1.1	-13.8	3.9	15.8	13.6	14.1
7. Veterans' Benefits	16.9	16.8	16.6	16.8	16.9	16.8	16.7	16.8	16.9	16.9	1.7	0.0	0.3	16.8	16.8	16.8
8. Employees' Retirement	68.3	69.4	70.3	71.5	72.3	73.1	74.1	75.3	76.4	77.5	10.7	5.8	5.8	68.8	72.8	76.9
9. A.F.D.C.	15.3	15.2	15.1	15.6	15.7	15.5	15.4	16.2	16.4	16.2	2.9	2.5	4.3	15.2	15.6	16.2
10. Other	54.3	54.3	54.2	54.3	54.5	54.5	54.8	54.7	55.0	55.0	2.7	0.5	0.9	54.3	54.5	55.0
11. Business Transfers	19.0	19.5	20.0	20.5	21.0	21.6	22.1	22.7	23.2	23.8	11.1	10.6	10.4	19.3	21.3	23.5
12. Interest Transfers	178.2	182.3	187.2	192.8	198.5	205.0	211.3	217.8	223.6	229.6	19.8	12.7	12.4	179.2	201.9	226.9
13. Personal Dividends	82.5	83.2	84.3	85.5	86.9	88.4	89 9	91.4	92.9	94.3	6.6	5.8	6.8	82.9	87.7	93.6
14. Equals: Personal Income	3174.7	3199.1	3254.1	3310.9	3365.0	3412.0	3459.1	3512.6	3562.2	3613.9	6.0	6.1	5.9	3192.9	3386.8	3588.1
15. Less: Personal Tax Payments	448.2	486.6	498.8	506.6	518.4	528.7	539.0	541.9	552.7	558.7	10.4	8.9	6.2	480.7	523.2	555.7
16. Equals: Disposable Personal Income	2726.5	2712.6	2755.3	2804.3	2846.6	2883.3	2920.1	2970.7	3009.5	3055.2	5.3	5.6	5.9	2712.3	2863.6	3032.4
17. Less: Consumption	2493.0	2536.5	2563.6	2605.3	2644.9	2680.5	2725.8	2760.6	2800.6	2845.5	7.2	6.1	6.0	2509.9	2664.1	2825.1
18. Less: Other Outlays	94.1	97.7	101.6	104.9	108.6	112.2	115.9	119.0	122.4	125.9	21.3	15.3	12.6	95.8	110.4	124.3
19. Equals: Personal Savings	139.4	78.4	90.1	94.1	93.1	90.6	78.4	91.1	86.5	83.8	-31.7	-16.5	-6.8	106.6	89.1	83.0
20. Savings Rate (%)	5.1	2.9	3.3	3.4	3.3	3.1	2.7	3.1	2.9	2.7	-35.0	-20.9	-11.6	4.0	3.1	2.8

Table 5.

Georgia State University
College of Business Administration
Economic Forecasting Center
November 1985

U.S. Federal Government Activity for 1985-II and III with Forecasts for 1985-IV through 1987-III

	1985			1986				1987			Percent Change			Annual		
	II	III	IV	I	II	III	IV	I	II	III	84-85	85-86	86-87	1985	1986	1987
1. Government Receipts	733.9	770.3	791.0	808.7	821.2	834.7	850.1	862.0	875.1	881.9	8.8	8.1	6.1	766.7	828.7	879.3
2. Personal Tax & Non-Tax	318.3	354.6	363.3	367.7	376.3	383.7	391.4	391.2	398.9	401.6	11.0	8.6	5.4	349.6	379.8	400.3
3. Corporate Profits Tax	66.1	67.9	72.8	71.9	71.0	72.2	74.8	71.9	72.0	70.5	-3.1	5.7	-0.8	68.6	72.5	71.9
4. Indirect Business Tax	60.7	55.7	57.3	59.0	59.6	61.1	62.4	63.2	64.0	65.0	3.6	5.2	6.8	57.5	60.5	64.6
5. Contributions for Social Security	288.9	292.1	297.6	310.1	314.3	317.7	321.5	335.7	340.2	344.8	10.4	8.6	8.4	291.0	315.9	342.4
6. Government Expenditures	948.0	969.9	981.9	989.0	1000.4	1016.3	1027.3	1046.7	1060.5	1077.2	8.9	5.1	5.9	959.1	1008.3	1068.3
7. Purchases of Goods and Services	324.2	347.0	349.8	351.4	354.7	363.3	368.7	378.7	384.7	391.1	13.5	7.2	7.9	335.2	359.5	387.9
8. Defense	241.1	253.1	257.5	261.9	267.6	273.8	279.6	287.0	293.3	299.2	11.2	9.9	9.4	246.4	270.7	296.3
9. Durables	76.3	81.9	84.0	87.2	90.3	93.3	96.5	99.2	102.5	105.3	13.9	16.3	13.2	78.9	91.8	104.0
10. Nondurables	13.0	14.0	14.3	13.8	13.9	14.3	14.2	14.4	14.8	15.4	11.6	8.1	6.6	13.0	14.1	15.0
11. Military Compensation	48.9	49.1	49.1	49.2	49.5	49.7	50.2	52.0	52.1	52.2	4.7	1.4	5.2	49.0	49.7	52.3
12. Civilian Compensation	32.6	32.8	33.1	33.3	33.4	33.6	33.7	34.8	34.9	31.0	4.9	2.4	-1.6	32.7	33.5	32.9
13. Other Services	64.7	69.4	71.2	73.0	74.7	76.6	78.8	80.6	82.5	84.5	16.6	12.6	10.4	67.3	75.8	83.6
14. Structures	5.5	5.9	5.8	5.4	5.8	6.3	6.2	6.0	6.4	6.7	11.8	8.7	8.4	5.5	5.9	6.4
15. Nondefense	83.2	93.9	92.3	89.5	87.1	89.5	89.1	91.7	91.5	91.9	20.2	0.0	3.2	88.8	88.8	91.6
16. Durables	4.1	4.2	4.2	4.2	4.3	4.3	4.2	4.4	4.3	4.4	12.2	2.4	2.3	4.2	4.3	4.3
Nondurables	6.0	16.0	13.4	9.9	7.7	9.0	7.8	8.4	8.6	7.8	---	---	---	11.0	8.6	7.9
17. CCC Inventory Change	0.3	10.6	7.6	4.2	1.7	3.2	1.6	2.3	2.5	1.9	---	---	---	5.6	2.7	1.9
18. Other Nondurables	5.7	5.3	5.8	5.7	6.0	5.8	6.2	6.1	6.1	5.9	-2.3	9.2	3.0	5.4	5.9	6.1
19. Compensation	38.3	38.5	38.7	39.0	39.1	39.5	39.6	40.9	40.9	41.2	4.8	2.4	4.5	38.4	39.3	41.1
20. Other Services	27.7	27.9	28.7	29.1	28.5	29.2	29.9	30.4	30.0	30.8	7.4	3.7	5.2	28.1	29.2	30.7
21. Structures	7.2	7.3	7.3	7.3	7.5	7.5	7.6	7.6	7.7	7.7	6.3	3.8	1.3	7.2	7.5	7.6
22. Transfer Payments	369.8	372.9	378.8	379.7	382.8	386.9	392.6	399.3	403.1	408.7	5.7	3.4	5.4	373.0	385.5	406.5
23. Grants-in-Aid to State and Local Governments	98.1	100.4	99.7	100.2	100.7	100.1	95.6	95.3	95.8	96.4	5.5	0.8	-4.3	98.3	99.2	94.9
24. Net Interest Paid	132.8	133.7	135.9	138.9	141.8	145.4	148.3	151.6	154.5	157.9	13.6	8.3	8.8	132.7	143.6	156.3
25. Deficit of Government Enterprises	22.1	15.8	17.7	18.8	20.4	20.6	22.1	21.8	22.4	23.1	-11.9	4.1	12.4	19.7	20.5	23.0
26. Federal Surplus	-214.1	-199.6	-190.9	-180.3	-179.2	-181.6	-177.2	-184.7	-185.4	-195.3	---	---	---	-192.4	-179.6	-189.0
27. Federal Debt Held by Individuals	1271.7	1331.3	1360.4	1413.5	1429.6	1484.7	1511.2	1566.3	1587.7	1647.1	14.9	11.9	10.9	1304.7	1459.8	1619.4
28. Total Government Surplus	-163.8	-151.3	-144.2	-134.1	-134.3	-137.9	-134.1	-142.7	-142.5	-152.0	---	---	---	-142.7	-135.1	-146.3

Table 6.

Georgia State University
College of Business Administration
Economic Forecasting Center
November 1985

Selected Economic Variables of the U.S. Economy for 1985-II and III with Forecasts for 1985-IV through 1987-III

	1985			1986				1987			Percent Change			Annual		
	II	III	IV	I	II	III	IV	I	II	III	84-85	85-86	86-87	1985	1986	1987
Private Economy																
1. Change in Private Hourly Wage Costs	2.8	3.9	4.2	5.0	4.2	4.2	3.9	6.4	4.5	4.7	---	---	---	3.6	4.2	4.8
2. Change in Output Per Worker Hour	-0.9	1.9	1.3	1.0	1.3	-0.5	0.2	-1.8	0.4	-0.7	---	---	---	-0.3	0.6	-0.4
3. Change in Implicit Unit Labor Costs	3.7	2.0	2.8	4.1	2.8	4.6	3.7	8.3	4.2	5.3	---	---	---	4.0	3.6	5.2
4. Change in Private Price Deflator	2.3	3.2	4.3	4.0	4.0	4.8	4.4	4.0	3.6	4.3	---	---	---	3.4	3.9	4.2
Prices																
5. Consumer Price Index	321.1	323.3	326.5	329.5	333.3	337.1	340.7	344.0	347.9	351.6	3.5	4.0	4.3	322.2	335.2	349.7
6. Industrial Commod. (Producer Price Index)	324.8	323.5	324.5	324.7	325.9	327.0	328.8	330.4	333.5	334.9	0.4	0.8	2.2	323.9	326.6	333.9
Corporate Economy																
7. After Tax Profit	137.4	141.2	151.5	148.4	147.9	150.5	156.8	150.2	151.5	148.1	-2.3	6.4	0.1	141.8	150.9	151.0
8. Inventory Profits	2.5	6.0	-2.3	-1.8	1.6	-2.8	-6.7	-9.4	-1.0	-4.2	---	---	---	1.8	-2.4	-6.2
9. Genuine Profits	214.9	229.5	235.6	237.8	244.3	245.2	249.2	241.7	244.8	246.3	13.2	10.1	0.7	221.8	244.1	245.8
10. Mean Closing Dow Jones	1286.6	1329.1	1378.5	1334.7	1333.2	1345.0	1402.2	1412.4	1439.6	1416.8	11.5	3.0	6.1	1314.4	1353.8	1436.5
11. Mean Closing NY Composite	107.06	109.12	112.26	109.46	108.73	109.72	114.18	115.62	117.23	114.83	16.5	2.6	5.7	107.8	110.5	116.8
Financial																
12. Monetary Base	224.7	229.5	232.8	236.8	240.5	244.3	248.3	252.6	256.8	260.3	7.3	6.9	6.6	226.7	242.5	258.6
13. Checkable Deposits	419.8	437.7	443.7	450.2	455.8	460.6	467.4	473.3	481.6	489.1	9.4	7.3	5.8	427.2	458.5	485.1
14. M1	582.9	604.5	612.8	622.3	630.6	637.9	647.8	656.3	667.4	678.1	8.6	7.2	6.0	592.1	634.7	672.6
15. Velocity of M1	6.506	6.375	6.457	6.470	6.499	6.510	6.509	6.497	6.483	6.467	-1.9	0.2	-0.3	6.485	6.497	6.478
16. M2	2448.2	2510.7	2557.1	2606.8	2654.3	2700.8	2755.2	2806.1	2863.9	2920.2	9.0	7.9	8.0	2483.1	2679.3	2892.3
17. Velocity of M2	1.549	1.535	1.546	1.545	1.544	1.539	1.531	1.519	1.511	1.502	-2.3	-0.4	-2.2	1.546	1.540	1.507
18. Federal Funds	7.92	7.90	8.13	8.37	8.52	8.13	7.72	7.46	7.43	7.61	-20.7	1.0	-9.2	8.11	8.19	7.43
19. Prime Rate	10.20	9.50	9.50	9.96	10.37	10.13	9.67	9.50	9.50	9.50	-17.5	1.0	-6.4	9.93	10.03	9.39
20. 6 Month T-Bills	7.55	7.30	7.54	7.79	7.93	7.61	7.43	7.25	7.13	7.19	-21.3	-0.2	-7.1	7.71	7.69	7.15
21. Seasoned AAA Corp.	11.63	11.03	11.22	11.46	11.61	11.35	10.96	10.58	10.39	10.45	-9.3	-1.6	-8.5	11.53	11.35	10.38
22. FHA Mortgage Rates	12.56	12.14	12.08	12.24	12.48	12.16	11.85	11.39	11.24	11.32	-9.5	-2.6	-7.7	12.50	12.18	11.25
Miscellaneous																
23. Housing Starts	1770	1664	1714	1698	1690	1615	1596	1697	1720	1569	-1.7	-5.0	-0.9	1736	1650	1634
24. Single Family Starts	1074	1033	1042	1035	1056	1052	1055	1123	1137	1032	-3.2	-1.7	3.1	1068	1050	1082
25. Unit Auto Sales	10.93	12.40	9.93	9.87	9.85	9.62	9.65	9.62	9.70	9.79	6.1	-11.6	-0.2	11.03	9.75	9.73
26. Civilian Employment	106.758	107.198	108.139	108.893	109.527	110.028	110.548	111.108	111.667	112.254	2.1	2.4	2.0	107.206	109.749	111.953
27. Unemployment Rate	7.3	7.1	7.1	6.8	6.7	6.7	6.7	6.6	6.6	6.7	-3.9	-6.8	-1.1	7.2	6.7	6.7
28. Industrial Production	124.4	124.5	125.8	127.2	127.8	127.3	127.1	126.5	127.0	126.8	2.3	2.2	-0.5	124.6	127.4	126.7
29. Asset-Consumption Ratio	3.178	3.179	3.191	3.147	3.121	3.118	3.130	3.145	3.152	3.102	0.7	-1.6	0.0	3.180	3.129	3.128

Table 7.

Georgia State University
College of Business Administration
Economic Forecasting Center
November 1985

U. S. Foreign Trade Accounts for 1984 with Forecasts for 1985, 1986 and 1987

	1984	1985	1986	1987	Percent Change 84-85	85-86	86-87
Exports of U.S. Merchandise	217641	215089	227055	243111	-1.2	5.6	7.1
Food & Live Animals	24463	18951	18523	19465	-22.5	-2.3	5.1
Beverages & Tobacco	2849	2896	2995	3237	1.6	3.4	8.1
Crude Materials	20154	17241	18050	19286	-14.5	4.7	6.9
Mineral Fuels	9310	9851	10268	10955	5.8	4.2	6.7
Animal & Vegetable Oils	1922	1460	1485	1667	-24.0	1.7	12.3
Chemicals	22309	22505	25095	26724	0.9	11.5	6.5
Manufactured Goods	15133	14327	15003	15629	-5.3	4.7	4.2
Machinery, Trans. Equipment	89904	95353	100683	108344	6.1	5.6	7.6
Miscellaneous Manufacturing	15668	15338	15705	16758	-2.1	2.4	6.7
Commodities, n.e.c.	10098	11372	13035	14333	12.6	14.6	10.0
Imports of Merchandise	325651	342409	360139	373574	5.1	5.2	3.7
Food & Live Animals	17973	18763	19574	20405	4.4	4.3	4.2
Beverages & Tobacco	3653	3734	3805	3862	2.2	1.9	1.5
Crude Materials	11117	10807	12976	13962	-2.8	20.1	7.6
Mineral Fuels	60889	53327	55019	54740	-12.4	3.2	-0.5
Animal & Vegetable Oils	696	690	720	751	-0.9	4.4	4.4
Chemicals	13686	14829	16495	17747	8.3	11.2	7.6
Manufactured Goods	46070	46915	49005	50236	1.8	4.5	2.5
Machinery, Trans. Equipment	119078	135052	140030	147237	13.4	3.7	5.1
Miscellaneous Manufacturing	42510	47522	50498	52334	11.8	6.3	3.6
Commodities, n.e.c.	9828	11002	11465	12329	11.9	4.2	7.5
Foreign Transactions							
Total Exports	364.3	353.4	376.7	407.2	-3.0	6.6	8.1
Merchandise Exports	219.2	216.4	227.9	244.0	-1.3	5.3	7.0
Factor Income	91.7	83.4	92.6	103.2	-9.1	11.1	11.4
Other Services	53.3	53.7	56.2	60.1	0.7	4.7	6.9
Total Imports	428.5	440.6	467.1	486.5	2.8	6.0	4.1
Merchandise Imports	325.5	338.1	357.9	371.2	3.9	5.8	3.7
Factor Income	48.1	45.2	49.4	53.5	-6.2	9.4	8.3
Other Services	54.9	57.3	59.9	61.8	4.4	4.4	3.3
Transfer	9.6	10.2	10.5	10.9	5.7	2.7	4.1
Government Interest	19.6	21.3	23.8	24.9	8.7	11.6	4.9
Net Foreign Investment	-93.4	-118.8	-124.6	-115.2	---	---	---
Trade Weighted Value of Dollar (3/73=100)	138.3	143.0	121.5	112.9	3.4	-15.0	-7.1

Table 8.

Georgia State University
College of Business Administration
Economic Forecasting Center
November 1985

Implicit Price Deflators for Personal Consumption Expenditures for 1985-II and III with Forecasts for 1985-IV through 1987-III

	1985			1986				1987			Percent Change			Annual		
	II	III	IV	I	II	III	IV	I	II	III	84-85	85-86	86-87	1985	1986	1987
Durable Goods	178.4	178.6	178.0	178.6	179.3	180.1	181.2	181.8	182.5	183.4	-0.3	0.7	1.8	178.5	179.8	183.1
% Change	-1.6	0.4	-1.3	1.4	1.6	1.8	2.5	1.3	1.5	2.0						
Automobiles	200.4	198.5	200.5	201.6	201.9	202.3	203.9	204.6	205.1	206.2	1.2	1.2	1.7	200.0	202.4	205.9
% Change	0.0	-3.7	4.1	2.2	0.6	0.8	3.2	1.4	1.0	2.2						
Furniture	153.1	152.3	151.7	151.9	152.2	152.7	153.1	153.4	153.8	154.4	-2.3	-0.3	1.1	152.9	152.5	154.1
% Change	-3.3	-2.1	-1.6	0.5	0.8	1.3	1.1	0.8	1.0	1.6						
Other Durables	190.8	192.6	193.3	194.8	196.8	199.5	201.6	202.9	204.5	205.7	1.5	3.4	3.6	191.7	198.2	205.2
% Change	1.5	3.8	1.5	3.1	4.2	5.6	4.3	2.6	3.2	2.4						
Nondurables	221.2	221.8	223.9	225.5	226.8	228.6	230.4	232.0	233.2	235.1	1.8	2.7	2.8	221.8	227.8	234.3
% Change	2.0	1.1	3.8	2.9	2.3	3.2	3.2	2.8	2.1	3.3						
Food	232.1	232.6	234.7	237.1	239.4	241.8	243.7	245.3	246.4	248.2	1.6	3.2	2.9	233.0	240.5	247.5
% Change	-0.5	0.9	3.7	4.2	3.9	4.1	3.2	2.7	1.8	3.0						
Apparel	149.5	148.7	150.5	151.2	152.3	153.2	154.8	155.5	156.4	157.3	2.8	2.4	2.7	149.3	152.9	157.0
% Change	2.4	-2.1	4.9	1.9	2.9	2.4	4.2	1.8	2.3	2.3						
Gasoline & Oil	350.4	347.1	248.2	347.6	342.2	339.9	341.9	344.5	345.9	349.2	1.6	-0.6	1.4	345.0	342.9	347.7
% Change	21.0	-3.7	1.3	-0.7	-6.1	-2.7	2.4	3.1	1.6	3.9						
Fuel Oil	533.2	516.5	531.8	532.1	521.0	512.9	522.1	524.0	528.2	535.4	-3.2	-0.7	2.1	526.5	522.0	533.2
% Change	9.7	-12.0	12.4	0.2	-8.1	-6.1	7.4	1.5	3.2	5.6						
Other Nondurables	227.7	230.1	232.2	235.0	237.4	240.3	243.0	245.6	248.4	251.2	3.9	4.3	4.6	229.0	238.9	249.8
% Change	3.2	4.3	3.7	4.9	4.1	5.0	4.6	4.3	4.6	4.6						
Services	248.1	251.0	253.9	257.0	260.2	264.0	267.5	271.0	274.5	278.1	5.0	5.1	5.4	249.6	262.2	276.3
% Change	4.8	4.8	4.7	5.0	5.1	6.0	5.4	5.3	5.3	5.4						
Housing	235.4	239.4	242.6	245.8	249.5	253.2	256.8	260.5	264.1	268.0	6.0	5.9	5.9	237.3	251.3	266.1
% Change	6.2	7.0	5.5	5.4	6.2	6.1	5.8	5.9	5.6	6.0						
Electricity & Gas	347.5	351.1	353.1	350.8	350.6	355.7	358.1	359.7	361.1	365.6	2.5	1.2	2.8	349.7	353.8	363.6
% Change	0.6	4.2	2.3	-2.6	-0.2	5.9	2.7	1.8	1.6	5.1						
Household Operations	204.3	208.4	211.0	213.2	215.3	217.6	219.8	221.8	224.0	226.2	4.6	4.9	4.0	206.3	216.5	225.1
% Change	5.9	8.3	5.1	4.2	4.0	4.3	4.1	3.7	4.0	4.0						
Transportation	250.5	251.8	254.5	257.8	260.5	264.0	267.3	270.5	273.7	277.5	5.2	4.2	5.1	251.7	262.4	275.7
% Change	0.6	2.1	4.4	5.3	4.3	5.5	5.1	4.9	4.8	5.7						
Other Services	255.2	257.4	260.4	263.9	267.6	271.7	275.5	279.3	283.3	286.8	5.0	5.3	5.7	256.2	269.7	285.1
% Change	5.8	3.5	4.7	5.5	5.7	6.3	5.7	5.6	5.9	5.0						
Personal Consump Exp	226.2	227.5	229.9	232.1	234.2	236.9	239.5	241.9	244.2	246.7	3.0	3.8	4.2	227.1	235.7	245.6
% Change	2.9	2.3	4.3	3.9	3.7	4.7	4.5	4.1	3.9	4.2						
Consumer Price Index	321.1	323.3	326.5	329.5	333.3	337.1	340.7	344.0	347.9	351.6	3.5	4.0	4.3	322.2	335.2	349.7
% Change	4.2	2.8	4.0	3.7	4.7	4.6	4.3	3.9	4.6	4.3						

Table 9.

Georgia State University
College of Business Administration
Economic Forecasting Center
November 1985

Implicit Price Deflators with Annual Percentage Changes for 1985-II and III with Forecasts for 1985-IV through 1987-III

	1985			1986				1987			Percent Change			Annual		
	II	III	IV	I	II	III	IV	I	II	III	84-85	85-86	86-87	1985	1986	1987
GNP Deflator	230.55	232.44	234.80	237.23	239.64	242.42	245.06	247.76	250.04	252.69	3.7	4.0	4.3	231.72	241.09	251.48
% Change	2.6	3.3	4.1	4.2	4.1	4.7	4.4	4.5	3.7	4.3						
Personal Cons. Exp.	226.2	227.5	229.9	232.1	234.2	236.9	239.5	241.9	244.2	246.7	3.0	3.8	4.2	227.1	235.7	245.6
% Change	2.9	2.3	4.3	3.9	3.7	4.7	4.5	4.1	3.9	4.2						
Private Domestic Investment	222.2	223.9	226.5	228.9	231.2	233.3	235.7	237.6	239.5	241.5	1.6	3.9	3.6	223.5	232.3	240.6
% Change	1.5	3.1	4.7	4.3	4.1	3.7	4.2	3.3	3.2	3.4						
Structures	271.0	274.0	276.2	279.1	282.1	284.9	287.9	290.7	293.2	296.0	3.0	4.1	4.0	272.3	283.5	294.8
% Change	4.4	4.5	3.3	4.3	4.4	4.0	4.3	3.9	3.5	3.9						
Producers' Durables	189.1	191.8	193.2	194.4	196.0	197.5	199.3	201.0	202.6	204.5	2.6	3.1	3.5	190.8	196.8	203.6
% Change	-0.2	5.8	3.0	2.5	3.3	3.1	3.7	3.5	3.2	3.8						
Residential Structures	259.3	261.3	264.2	266.7	269.0	270.9	273.1	275.5	278.1	280.7	2.0	3.5	3.5	260.9	269.9	279.3
% Change	1.1	3.1	4.5	3.8	3.5	2.9	3.3	3.6	3.8	3.8						
Exports	252.0	251.7	252.7	254.1	255.2	257.2	259.4	262.0	264.4	267.8	1.0	1.8	3.7	251.9	256.5	266.1
% Change	1.6	-0.5	1.6	2.2	1.7	3.2	3.5	4.1	3.7	5.2						
Imports	257.1	253.8	256.1	256.4	256.6	258.1	260.6	264.0	267.7	271.1	-4.2	1.2	4.3	255.0	257.9	269.1
%Change	7.0	-5.0	3.7	0.5	0.3	2.4	3.9	5.3	5.7	5.2						
Federal	250.1	249.0	250.0	251.9	253.4	255.8	258.0	262.6	265.0	267.6	3.2	2.4	4.5	248.9	254.8	266.3
% Change	6.1	-1.7	1.6	3.1	2.4	3.8	3.5	7.3	3.7	4.0						
Federal Purchases	263.9	260.2	261.7	264.0	266.0	269.1	272.0	274.8	278.2	281.7	1.9	2.6	4.5	261.0	267.8	279.9
% Change	9.3	-5.4	2.3	3.6	3.1	4.7	4.4	4.2	5.0	5.1						
Federal Value Added	229.5	230.2	230.9	231.8	232.5	233.3	233.9	241.5	242.0	242.8	4.2	1.3	4.1	229.9	232.9	242.4
% Change	1.2	1.2	1.2	1.6	1.2	1.4	1.0	13.6	0.8	1.3						
State & Local	264.7	268.1	271.7	275.6	279.5	283.2	287.3	291.5	295.6	299.9	5.8	5.7	5.8	266.4	281.4	297.8
% Change	6.0	5.2	5.5	5.9	5.8	5.4	5.9	6.0	5.7	5.9						
State & Local Purchases	269.6	271.8	274.1	276.7	279.5	282.8	286.0	289.8	293.6	297.6	4.0	3.9	5.1	270.7	281.3	295.5
% Change	3.8	3.3	3.4	3.8	4.1	4.8	4.6	5.4	5.3	5.6						
State & Local Value Added	261.2	265.5	270.0	274.7	279.3	283.6	288.2	292.9	297.4	302.1	7.1	6.9	6.5	263.4	281.5	299.9
% Change	7.2	6.7	7.0	7.1	6.9	6.3	6.6	6.7	6.3	6.5						

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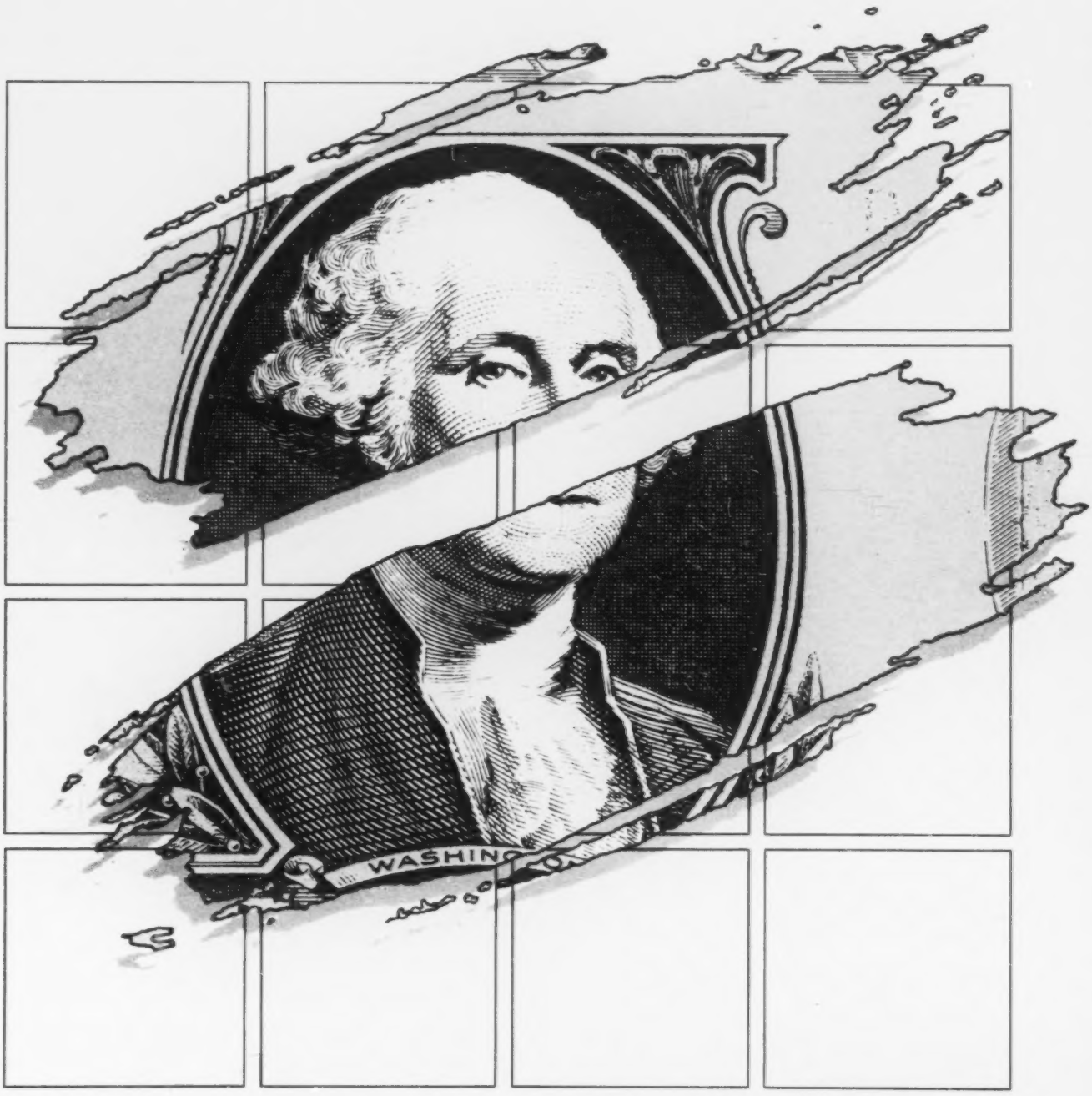

BUDGET AND TAX CHANGES THREATEN RECESSION LATE IN 1987

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Summary

Data revisions reveal that construction activity was even more excessive than originally anticipated during the current economic expansion. Changes in the tax codes, which are assumed to become effective in 1987, will significantly reduce holdings in construction products. Moreover, the absence of any capital appreciation in most construction goods, except for a modest rate of increase in housing values, would cause a construction correction even in the absence of tax code changes. Thus, declines in rental housing and in nonresidential private construction, along with only modest improvement in public construction, will substantially weaken economic growth in 1987.

Tax code changes also will reduce nonconstruction capital formations, although economic imbalances here are not dramatic. Nevertheless, a secularly declining trend in investment by utilities along with manufacturing hesitancy and a falloff in truck purchases all should slow growth in fixed investment well into 1987.

Budgetary restraints initiated by Gramm-Rudman legislation also will substantially restrain economic growth next year. Government payrolls are expected to show minimal expansion at the federal level while a sharp decline in grants-in-aid also will reduce the growth of state and local payrolls. In addition, procurement is expected to slow sharply. However, the GNP accounts overstate the degree of slowing in government stimulus as some of the decline in nondefense spending will be associated with reduced purchases by the Commodity Credit Corporation. In effect, a larger portion of surplus agricultural production will be held in private inventories rather than in government programs. Nevertheless, federal government expenditures are expected to slow from growth rates of 9.5% in 1985 to as little as 4.7 and 4.1 percent in 1986 and 1987.

Partially offsetting the slowing impact on economic activity from budgetary restraint will be stimulative activity derived from reduced real rates of interest. Sharply declining interest rates are not predicted, however, because of two developing factors. First, an inventory rebound will sustain current rates of interest through much of 1986. Such an inventory rebound also will add appreciably to increased economic activity during the current year. Second, inflation rates will be trending upward in 1987. Sharply falling oil prices will provide a fifth consecutive year of less than 4% inflation in 1986. Indeed, prices during the first half of this year may increase only at an annual rate of 3%. Later in the year, however, energy prices are expected to stabilize while continued weakness in the dollar should begin to exert upward pressures upon prices of imported goods and upon underlying inflation. In 1987, the inflation rate is expected to be 4.4% as measured by the CPI.

Of course, rising import prices will increase competitiveness worldwide for American producers. The trade deficit reached an all-time record in December that is not expected to be tested during the next two years. Initially, improvement in trade balances will be slow as rising import prices will largely offset decreased import volumes and increased export activity. Partially offsetting this adverse price effect will be more than a $10 billion reduction at annual rates in the import price of oil. As the volume of net exports improve, manufacturing activity in the United States will be stimulated, with American producers recapturing a larger share of the domestic market.

While improving trade balances could be significant enough to offset weakness generated by construction, fixed investment, and reduced government purchasing power, it appears more likely that the economy will be generating the rising cost pressures and deteriorating productivity before the end of 1986 that normally precedes a recession. A recession during the latter half of 1987 is a distinct possibility, especially if tax reform and budgetary restraint assumed in this forecast come to pass and if inventory rebuilding during 1986 creates a temporary impression of false economic vigor leading to excess inventory stocking.

Data Revisions

The major GNP revisions that were released in December were not as dramatic as earlier anticipated. Despite better estimates of inflationary pressures exerted by computers, underlying inflation during the 1970s was raised about 0.2 percentage points per year. More substantial estimates of income, especially of proprietorships, significantly raised household income and the magnitude of savings in the United States during the 1970s; but those adjustments did not increase real economic growth. In fact, economic growth slowed slightly in the past decade. Moreover, the revisions did not alter the dramatic slowing in savings that developed in the past few years.

Because the GNP deflator has been adjusted to a 1982 benchmark, estimates of real economic activity and the price indices appear to be dramatically altered from earlier reports. However, these adjustments did not have an appreciable impact upon economic conditions.

The revisions changed economic conditions in two sectors, however. First, household incomes were altered by three significant adjustments:

1. An additional nearly $100 billion in proprietors' income significantly raised household income levels. As a result, the heavy debt burdens that concerned economists last year are not quite as onerous as originally reported.

2. Better cost estimates for maintaining housing have dramatically reduced estimates of rental income. As most rental income is imputed to homeowners rather than received by investors, this adjustment does not dramatically lower the capacity of households to consume, although it diminishes estimated returns from homeownerships.

3. Interest income once again was revised upward, this time by $16 billion.

The results of all these adjustments on the household sector was to provide slightly greater capacity to continue consumer spending in the next two years than had been anticipated as a result of earlier statistics.

Second, significant upward revisions in expenditures on rehabilitation and remodeling significantly raised the value of the available housing stock. Instead of increasing about 2.5% per year in recent years as estimated from earlier GNP data, it appears that housing has been growing about 3.3%. Although these differences appear to be small, they suggest that a growing proportion of all households is upgrading existing properties rather than using the time-honored tradition of trading up. As a result, fewer houses are being sold than would be estimated by prevailing economic conditions. This may explain why housing starts have been stuck at 1.8 million despite the best affordability of new housing in seven years.

Returns to equity ownership also were slightly reduced by the data revisions, which normally would dictate lower market equity value. However, the rate of improvement in equity values has been more dramatic since the beginning of this economic recovery than originally reported. Indeed, changes in returns to equity ownership indicate that stock values could rise to the vicinity of 1700 as measured by the Dow Jones average. Previously, it appeared that stock prices were becoming excessive based upon slower gains in equity returns in recent months.

As the data revisions reduced real economic activity, the underlying growth path of the United States remains no higher than 3% at the present time. Revisions also suggest that productivity in the United States performed more poorly than the sluggish half percent-per-year that was estimated for the 1970s from earlier data.

Recent Activity

Retail inventory rebounded in the fourth quarter as a result of automobile restocking and a surge of imports that were delivered in hopes of receiving payment and converting dollars into other currencies before the dollar declined further. Manufacturers and wholesalers continued to liquidate until the end of the quarter. Indeed, manufacturing inventories fell 0.5% in December. A rebound in inventories at earlier stages of processing must now be imminent. As December's strength in employment and industrial activity did not reflect inventory rebuilding, further production and employment gains should now be anticipated in the early months of 1986. Our monthly estimates show that real GNP probably grew at an annual rate in excess of 6% during December. This sets the stage for relatively vigorous economic growth, approaching 5%, in the first quarter.

Normally, such vigorous activity associated with rebounding inventory holdings would push interest rates upward. Fortunately, prices of energy materials are falling sharply. No one is certain how far oil prices will fall. At the present time, the OPEC oversupply appears to be about three million barrels per day. In addition, another million excess barrels may be generated by the Soviet Union. Oil prices are notoriously inelastic in the short-run. Thus, this 8-10% oversupply would require a 35-50% price adjustment from previously prevailing equilibrium prices. If the oversupply continues at that magnitude, this would mean a world oil price of between $15 and $18 per barrel. It must not be forgotten, however, that the long-run price elasticities, which begin to exert their influence after two years following an oil price adjustment, are considerably higher. While prices almost certainly would fall even in the long-run if such an oversupply continued, the price decline would only be about 15% from previously prevailing prices (about $27 per barrel).

Moreover, as the excess supply is partially in response to political rather than economic variables, its magnitude could be significantly altered. At the present time, we are assuming that effective oil prices will fall to $21 per barrel early in 1987.

These declining oil prices sharply reduce our import bill and significantly increase consumer activity. Moreover, this increased economic activity occurs while prices are moderating. Our surveys already show a decline in industrial prices for the first quarter, which almost surely will be followed by slowing gains in the Consumer Price Index during the spring. After the spring, the favorable impact from declining oil prices will lessen while the unfavorable inflationary forces generated by a weakening dollar will begin to surface. Wage pressures are expected to intensify in such an environment, leading to gradual acceleration in the labor cost per unit produced.

In the meantime, increased economic activity will be generated while inflation is declining. Therefore, credit market pressures will not intensify significantly even as inventories are being restocked. Although interest rates may not fall much in such an economic environment, they almost certainly will not rise. In fact, sluggish consumer activity following the ending of auto incentives in late February could provide a temporary pocket of economic weakness in the early spring that would be sufficient for the Federal Reserve to lower the discount rate. The bank prime rate probably will fall to 9% before mid-year.

Already, construction orders are beginning to slip. Orders for nonresidential construction fell 11% in November and then declined by a further 2% in December. A sufficient backlog of previous orders exists to ensure continued growth in nonresidential construction through the first half of 1986. However, this pattern of diminished orders will begin to exert downward pressures upon construction by the fall. Rental property permits have not yet shown any inclination to decline, as builders currently expect that tax reform will not influence projects placed on the books in 1986. Toward the end of 1986, however, rental construction is expected to slide noticeably. Indeed, multi-family activity is expected to fall 20% in 1987.

Fixed investment also showed renewed vigor during the fall as a result of two events. Shipments of new computer mainframes and a new generation of mini-computers sharply increased purchases of capital goods for information processing. These strong sales are expected to continue through the first half of 1986 but should taper off near the end of the year. Also, sharp increases in orders for commercial aircraft ensure a strong aerospace industry through the remainder of this decade even if defense gains are signficantly pared.

In our previous presentation, it was felt that increasing strength in net exports would be only partially offset by weakness in construction. An overextended consumer would gradually slow support for the overall economy but inventory rebuilding would provide sufficient payroll growth to ensure moderate economic growth over the next two years. That forecast was based upon an assumption that no wrenching changes in fiscal and monetary policy would occur. Passage of tax reform legislation by the House and Gramm-Rudman legislation passed by the Congress makes that assumption no longer valid.

Congress currently is especially concerned about budgetary conditions. They are attempting to restrain government borrowings to only $144 billion in FY

1987. Our forecast clearly shows that this level of borrowing cannot be achieved. Indeed, the economic weakness created by construction excesses, tax uncertainty, and budgetary restraints make it unlikely that the budget deficit will fall significantly below $200 billion.

Some analysts have argued that the restraining influence from slowing budgetary policy should be offset by more stimulative monetary activity. Certainly, an improved mix in governmental policies would be desirable. However, it is difficult to conceive what rate of interest would be necessary to create incentives to build another empty building in Houston. If tax codes are changed, it is difficult to envision an economic environment that will stimulate rental property construction until reduced rental supplies substantially raised prevailing rental rates. Reduced interest rates along with increased inflationary pressures that are a side effect of substantial monetary stimulus would generate increased inventory holdings. Perhaps, even desired inventory holdings relative to sales could be increased slightly. However, most of the stimulated inventory investment would be at the expense of inventory restocking sometime in the future. In other words, more stimulative monetary policy may be able to shift the timing of inventory investment but should do relatively little to increase desired inventory holdings relative to sales.

Increased monetary stimulus will lower the value of the dollar, thereby increasing American competitiveness relative to foreign producers. The lags in response to changing monetary policy are relatively long and almost always contain an inflationary side effect even at relatively reduced rates of capacity utilization. Nevertheless, increased monetary stimulus probably would be appropriate to offset diminished fiscal stimulus in the next year.

In fact, while tax reform and budget restraint policies threaten recession, they also improve the interest rate outlook. Although interest rates already have fallen significantly, a further percentage point decline in long-term government yields is likely in 1987. Short-term interest rates also could decline by a full percentage point from current levels. Such an improving interest rate outlook will moderate any stock market correction that may develop as profits become restrained in 1987. Prior to that time, improving economic conditions will lead to increasing profitability and higher equity values. Our formula suggests that the stock market could average more than 1700 on the Dow Jones during the summer months before anticipations of increasing economic sluggishness cause a significant market correction in 1987.

Policy uncertainty both in terms of budgetary conditions and tax changes threaten the economic health of the economy in 1987. Prior to that period, rebounding inventories and continued construction expansion should provide bursts of vigorous economic growth. Declining oil prices certainly increase prospects for near term economic gains in a non-inflationary environment. The construction overhang will need to be eliminated regardless of policy changes, while a falling dollar almost certainly will increase American producers' share of the American market. It should also help generate increasing dollar profits abroad.

Recent Performance

Economic activity was weaker than anticipated during the fourth quarter while inflation was slighter greater than expected. Rising inflation during the fourth quarter was generated by three factors. First, meat prices rose as

anticipated in the fall. It appears that livestock now are being slaughtered for liquidity purposes on the farm and are not being sent to market based upon projected feed costs. As a result, fewer animals are going to market in the winter while more animals should be expected to be slaughtered in the spring than previously occurred. Second, prices of petroleum products rose unexpectedly. This was the result of reduced inventory caused by anticipations of further oil price declines. Now that those anticipations are being realized, prices of petroleum products should tumble in the months ahead. Gasoline prices should fall nearly 15¢ per gallon while fuel oil prices will be 20¢ per gallon cheaper next winter than they were this winter. Third, productivity declined sharply, causing higher labor costs per unit produced than expected. If productivity no longer is rising for this cycle, rising cost pressures could begin the process of establishing preconditions for a recessions. However, it appears at the present time that manufacturers became more optomistic about their sales projections and were adding personnel in anticipation of increased activity. This temporarily reduced productivity, but should provide the personnel for sharply higher economic activity, and therefore, improved cost conditions early in 1986.

The errors in anticipating inflationary performance in the fourth quarter appear to be the result of unusual and temporary conditions that cannot effectively be modeled. For that reason, no adjustments were made to reflect those forecast errors.

The trade deficit was also larger than expected. We feel this was the result of importers hurrying products to market in order to convert the dollars they received into stronger currencies. Presumably, adverse trade flows will diminish in the months ahead as these inventories are gradually liquidated. Thus, the trade deficit should not be as high in the first quarter.

Because of the data revisions, some of the forecasted changes cannot be easily compared. However, long-term interest rates fell more sharply than anticipated and this was a significant factor in stimulating higher equity values. Reduced finance costs continue to be a significant contributor to corporate profitability in the fourth quarter. Declining long-term interest rates appear to be caused by investor perceptions that interest rates might fall. Prior to that perception, long-term interest rates commanded yields well in excess of those available on short-term instruments. This sharply positive yield curve could only be justified if short-term interest rates were expected to rise in the not-too-distant future. Changes in interest rate anticipations appear to be the result of anticipated budgetary restraint and a perception of a sluggish economy. The sluggish economy is not developing at the present time, but budgetary restraint still appears to be sufficient to justify these more favorable bond yields.

Assumptions

Changing budgetary and monetary policies are incorporated in the assumptions contained in Table 5 and Table 6. General revenue sharing was eliminated along with moderate declines in other grants to state and local governments. Both the civilian and military pay for federal employees was assumed to remain unchanged through 1987 although promotions and mandated step increases would generate some wage gains for employees. Transfer payments for veterans, government retirees, and supplement social programs also were restrained. In addition, the Congress was expected to ensure that defense showed no meaningful after-inflation gains in 1987.

Significant tax changes were incorporated in the forecast. Personal taxes were significantly reduced while corporate taxes were increased. Because of changes in depreciation guidelines, the capital consumption adjustment provision began to deteriorate. This is expected to significantly raise the effective taxes paid by corporations in the next few years. Most of the base broadening assumptions used at the federal level were assumed to be incorporated at the state level. As a result, effective tax rates at the state level were increased.

The decline in oil prices to $21 per barrel for early 1987 significantly reduces the returns from the windfall profits tax. As a result, federal indirect business taxes show minimal growth.

Reduced economic activity was initially expected to cause the Federal Reserve to allow a slowing in the money stock. However, increased reserve availability was expected to develop after a lag in response to these reduced money growth rates. This shift in Federal Reserve policy has a moderate impact upon interest rates because of increased borrowings by the federal government, reduced rates of savings at the household sector, and the diminished desires by foreigners to provide funds to the United States.

Some assumptions are as follows:

a) After increasing to 7.15% for the employer and employee on a wage base of $42,000 in 1986, Social Security taxes are expected to remain at 7.15% on a wage base of $44,000 in 1987. Cost-of-living adjustments for Social Security recipients are assumed to be 3.1% in 1987, the same as in the first quarter of 1986.

b) No changes in excise taxes were assumed despite increasing talk about an oil import fee. Postal rates were assumed not to change in the forecast.

c) World trade is expected to slow further to only 3% in 1986 and 1987. Aside from problems with the coffee crop, which already are incorporated in prevailing prices, no crop failures or other demand distorting conditions were assumed; no significant interventions to artifically reduce the dollar's value were assumed.

d) Despite important contract negotiations in the steel industry and problems with some airlines, no significant strike activity was assumed in the forecast.

CONCLUSIONS

The need for consumer retrenchment is not as dramatic as earlier thought, as a result of data revisions and the favorable impact upon consumption generated by vigorous stock market gains.

Construction activity almost certainly will weaken significantly late in 1986 and continue trending downward in 1987. Orders already have slipped for two months and are expected to remain weak through the next year. Partially offsetting the weakness in construction will be gains in net exports resulting from the dollar's decline.

Inflation should remain subdued in 1986 as falling prices of energy materials will offset the increasing inflationary pressures generated by a declining dollar. In 1987, however, increasing inflationary pressures are expected to resurface.

Interest rates probably will trend downward another percentage point by early 1987. These declining interest rates initially will stimulate a strong stock market, where values are expected to exceed 1700 during the summer months. However, weakness in corporate profitability in 1987 should cause a declining stock market at that time.

Because of policy uncertainties, we no longer can rule out the likelihood of recession in 1987. On the other hand, economic conditions still look favorable for much of 1986.

Table 1.

Georgia State University
College of Business Administration
Economic Forecasting Center
February 1986

U.S. Expenditures for 1985-III and IV with Forecasts for 1986-I through 1987-IV

	1985		1986				1987				Percent Change			Annual		
	III	IV	I	II	III	IV	I	II	III	IV	84-85	85-86	86-87	1985	1986	1987
1. Personal Consumption Expenditures	2606.1	2633.3	2681.0	2710.7	2756.1	1794.8	2843.8	2889.1	2938.1	2989.7	6.6	6.0	6.6	2581.9	2735.9	2915.2
2. Autos and Parts	183.0	159.3	169.6	163.2	169.9	167.6	172.0	175.0	175.9	178.9	9.0	-0.1	4.7	167.7	167.6	175.5
3. Other Durable Goods	193.0	199.9	202.6	204.9	207.3	209.3	210.8	212.8	215.1	217.2	8.9	6.7	3.9	193.1	206.0	214.0
4. Nondurable Goods	914.5	929.4	940.3	948.8	958.8	971.4	984.0	996.5	1011.4	1027.5	4.6	4.6	5.2	912.5	954.8	1004.9
5. Services	1315.6	1344.6	1368.5	1393.8	1420.1	1447.5	1477.0	1504.8	1535.7	1566.1	7.3	7.6	8.1	1308.7	1407.5	1520.9
6. Gross Private Domestic Investment	666.1	685.2	717.5	745.3	741.7	752.5	758.1	767.1	752.2	739.8	-0.5	10.3	2.0	670.4	739.3	754.3
7. Residential Struct.	187.4	192.5	198.6	201.2	205.1	205.8	206.1	205.7	200.9	200.5	3.6	9.2	0.3	185.6	202.7	203.3
8. Other Structures	170.4	173.7	176.3	178.3	179.9	182.8	183.8	183.1	182.0	181.8	15.1	5.5	1.9	170.0	179.3	182.7
9. Producers' Durables	308.1	316.9	323.2	324.1	326.5	328.2	329.1	330.0	331.1	334.0	9.1	6.5	1.7	305.8	325.5	331.1
10. Change in Inventories	0.2	2.1	19.4	41.7	30.2	35.7	39.1	48.3	38.2	23.5	---	---	---	9.1	31.8	37.3
11. Net Export of Goods and Services	-87.8	-97.2	-100.9	-100.9	-101.2	-95.2	-88.7	-89.3	-82.2	-79.4	---	---	---	-74.4	-99.6	-84.9
12. Exports	363.2	369.7	366.6	374.5	378.2	390.9	398.8	406.7	416.3	426.7	-3.7	1.9	9.2	370.4	377.6	412.1
13. Imports	451.0	466.9	467.5	475.4	479.4	486.1	487.5	496.0	498.5	506.1	0.2	7.3	4.2	444.8	477.1	497.0
14. Government Purchases of Goods and Services	832.5	853.7	856.7	859.7	877.7	893.7	901.2	910.0	926.0	944.1	10.5	7.0	5.5	814.6	872.0	920.3
15. Federal	364.8	378.6	372.5	368.0	477.0	386.3	384.6	384.4	390.9	401.0	13.1	6.2	3.8	353.9	376.0	390.2
16. National Defense	269.9	272.5	277.2	281.1	286.0	288.8	294.3	299.4	304.0	307.9	10.6	8.1	6.4	262.0	283.3	301.4
17. Other	95.0	106.1	95.3	86.9	91.0	97.5	90.3	85.0	86.9	93.1	21.0	0.8	-4.2	91.9	92.7	88.8
18. State and Local	467.7	475.2	484.2	491.7	500.4	507.4	516.6	525.6	535.1	543.1	8.7	7.6	6.9	460.7	495.9	530.1
19. Gross National Product	4016.9	4075.1	4154.3	4214.8	4274.3	4346.8	4414.4	4476.9	4534.1	4594.2	5.8	6.4	6.1	3992.5	4247.6	4504.9
20. Amount of Change	56.3	58.2	79.2	60.5	59.5	72.5	67.6	62.5	57.2	60.1	---	---	---	217.8	255.0	257.3
21. % Change*	5.8	5.9	8.0	6.0	5.8	7.0	6.4	5.8	5.2	5.4	---	---	---	5.8	6.4	6.1
22. % Real Change*	3.0	2.4	4.9	2.8	2.4	3.4	1.9	1.5	0.7	0.9	---	---	---	2.3	3.2	2.0
23. % Price Change*	2.9	3.3	3.1	2.9	3.3	3.6	4.5	4.2	4.5	4.6	---	---	---	3.3	3.1	4.0
24. Implicit Price Deflator	112.1	113.0	113.9	114.7	115.6	116.6	117.9	119.1	120.4	121.8	3.3	3.1	4.0	111.7	115.2	119.8
25. Change in Final Sales	71.7	56.3	61.9	38.2	71.0	67.0	64.2	53.3	67.3	74.8	---	---	---	---	---	---
26. GNP in 1972 Dollars	3584.1	3605.0	3648.5	3674.2	3696.2	3726.8	3744.3	3758.2	3764.9	3772.9	2.3	3.2	2.0	3573.6	3686.4	3760.1

Table 2.

Georgia State University
College of Business Administration
Economic Forecasting Center
February 1986

U.S. Real Expenditures for 1985-III and IV with Forecasts for 1986-I through 1987-IV

		1985		1986				1987				Percent Change			Annual		
		III	IV	I	II	III	IV	I	II	III	IV	84-85	85-86	86-87	1985	1986	1987
1.	Personal Consumption	2329.6	2328.7	2352.6	2360.2	2378.5	2386.7	2400.8	2413.4	2426.9	2440.2	3.2	2.5	2.1	2312.6	2369.5	2420.3
2.	Durable Goods	359.3	344.3	355.9	350.8	357.7	355.0	358.6	360.6	360.9	362.4	8.2	2.9	1.6	344.8	354.9	360.6
3.	Nondurable Goods	849.8	853.0	858.0	863.5	868.1	871.5	874.4	879.2	883.9	887.6	2.3	2.1	1.8	847.4	865.3	881.3
4.	Services	1120.4	1131.3	1138.7	1145.9	1152.7	1160.2	1167.8	1173.6	1182.1	1190.2	2.5	2.5	2.5	1120.5	1149.4	1178.4
5.	Gross Private Domestic Invest.	645.0	662.2	690.7	713.4	706.2	710.9	710.4	713.5	693.4	675.5	-1.6	8.4	-1.0	650.6	705.3	698.2
6.	Residential Structures	173.1	176.7	180.5	180.9	183.0	181.0	179.4	177.5	171.4	169.2	1.9	5.7	-3.8	171.5	181.4	174.4
7.	Other Structures	165.8	168.4	170.5	171.4	172.1	172.3	171.8	169.7	167.3	165.9	11.4	3.6	-1.7	165.7	171.6	168.7
8.	Producers' Durables	307.9	317.0	322.8	322.5	323.6	323.3	322.3	321.0	319.9	319.9	8.7	5.5	-0.7	306.1	323.1	320.8
9.	Change in Inventories	-1.8	0.1	16.9	38.6	27.5	34.3	36.9	45.3	34.8	21.5	---	---	---	7.3	29.3	34.6
10.	Net Export of Goods and Services	-119.8	-127.6	-131.1	-130.1	-128.4	-119.0	-111.2	-111.0	-102.5	-97.9	---	---	---	-105.1	-127.1	-105.7
11.	Exports	353.5	360.4	358.4	364.7	366.4	375.5	379.8	384.0	389.1	394.4	-2.9	1.7	5.6	360.2	366.3	386.8
12.	Imports	473.3	488.0	489.5	494.7	494.8	494.5	491.0	495.0	491.6	492.3	8.0	6.0	-0.2	465.3	493.4	492.5
13.	Gov't Purchases of Goods & Services	729.2	741.7	736.3	730.6	740.1	748.2	744.3	742.3	747.1	754.1	5.9	3.3	1.1	715.4	738.8	747.0
14.	Federal	331.1	343.7	336.0	329.1	335.8	343.4	338.3	334.8	337.6	334.0	9.8	4.6	.0	321.3	336.1	336.2
15.	State & Local	398.1	398.0	400.3	401.5	404.3	404.8	406.0	407.5	409.5	410.1	2.8	2.2	1.4	394.2	402.7	408.3
16.	Gross National Product	3584.1	3605.0	3648.5	3674.2	3696.2	3726.8	3744.3	3758.2	3764.9	3772.9	2.3	3.2	2.0	3573.6	3686.4	3760.1
17.	Final Demand	3585.9	3604.9	3631.6	3635.6	3668.7	3692.5	3707.4	3712.9	3730.1	3751.4	4.0	2.5	1.9	3566.3	3657.1	3725.5
18.	Private Domestic Product	3197.2	3217.8	3259.9	3285.3	3305.5	3334.8	3349.1	3362.4	3367.4	3372.0	2.8	3.5	2.0	3186.0	3296.4	3362.7

Table 3.

Georgia State University
College of Business Administration
Economic Forecasting Center
February 1986

Income Related U.S. GNP Components for 1983-III and IV with Forecasts for 1986-I through 1987-IV

		1985		1986				1987				Percent Change			Annual		
		III	IV	I	II	III	IV	I	II	III	IV	84-85	85-86	86-87	1985	1986	1987
1.	Compensation of Employees	2385.2	2428.1	2482.2	2519.1	2558.9	2590.3	2638.5	2677.3	2716.9	2756.9	6.8	7.0	6.3	2372.7	2537.6	2697.4
2.	Wage and Salary	1970.1	2006.5	2048.4	2079.3	2112.6	2138.7	2174.6	2207.0	2240.2	2273.9	6.8	6.8	6.2	1960.5	2094.8	2223.9
3	Manufacturing	457.2	464.4	472.5	478.0	483.7	487.0	493.4	449.6	505.7	511.6	4.2	5.0	2.0	457.5	480.3	490.1
4	Other Commodity-Producing Industries	150.4	151.9	154.2	155.8	158.3	158.0	158.7	209.0	158.3	158.7	7.7	4.6	9.3	149.7	156.6	171.2
5	Distributive Industries	471.2	476.8	485.9	492.6	501.0	508.0	516.8	525.2	533.8	541.8	6.2	6.0	6.5	468.8	496.9	529.4
6	Service Industries	518.7	533.6	550.5	562.7	574.9	586.4	600.1	612.8	626.8	640.9	9.5	10.6	9.1	513.9	568.6	620.2
7	Military	66.8	69.1	69.7	70.1	70.1	70.6	72.1	72.5	72.3	72.4	5.9	4.3	3.1	67.3	70.1	72.3
8	Civilian Government	305.6	310.6	315.6	320.1	324.6	328.7	333.5	337.9	343.3	348.5	7.2	6.3	5.8	303.3	322.3	340.8
9	Supplements	415.1	421.6	433.8	439.8	446.3	451.6	463.9	470.3	476.7	483.0	6.7	7.4	6.9	412.2	442.9	473.5
10	Proprietors' Income	237.5	251.6	256.1	261.2	260.6	271.7	269.6	268.6	272.0	271.7	3.7	8.3	3.1	242.4	262.4	270.5
11	Business & Professional	225.3	229.1	235.2	239.5	242.0	246.4	247.9	248.3	246.8	246.2	9.8	8.8	2.7	221.4	240.8	247.3
12	Farm	12.2	22.5	20.9	21.7	18.6	25.3	21.7	20.3	25.2	25.5	-34.5	3.0	7.2	21.0	21.6	23.2
13	Rental Income	14.5	16.5	19.1	19.5	19.9	20.4	20.5	20.7	20.5	20.6	29.2	41.4	4.3	14.0	19.7	20.6
14	Net Interest	281.8	273.7	274.0	277.3	280.7	285.3	289.6	294.7	295.6	294.2	-4.2	-2.9	5.1	287.7	279.3	293.5
15	Corporate Profits Adj.	309.1	320.3e	323.7	326.9	335.7	345.0	345.3	343.4	333.3	331.6	9.7	11.0	1.7	299.8	332.8	338.4
16	National Income	3228.0	3290.2	3355.1	3404.0	3455.8	3512.7	3563.5	3604.7	3638.3	3675.0	5.8	6.7	5.5	3216.4	3431.9	3620.4
17	Indirect Business Tax	329.8	333.0	337.2	338.1	343.2	347.8	353.2	358.9	365.1	371.7	5.7	4.0	6.0	328.5	341.6	362.2
18	Capital Consumption Adj	-46.9	-54.9	-61.8	-67.1	-71.5	-73.1	-71.5	-67.3	-62.2	-56.2	---	---	---	-41.6	-68.4	-64.3
19	Capital Consumption Alw	488.3	502.2	514.8	527.6	539.9	551.0	562.3	572.9	583.4	593.4	14.3	11.1	8.4	479.9	533.3	578.1
20	Business Transfers	19.6	20.1	20.6	21.2	21.8	22.4	23.0	23.6	24.3	24.9	11.7	11.1	11.4	19.4	21.5	24.0
21	Net Govt. Subsidies	-4.4	-14.9	-9.8	-5.8	-10.0	-11.5	-10.3	-8.0	-8.0	-10.1	-2.0	-6.1	-1.9	-9.9	-9.3	-9.1
22	Statistical Discrepancy	2.5	-0.6e	-1.8	-3.2	-4.9	-2.5	-5.8	-7.9	-6.8	-4.7	---	---	---	-0.1	-3.1	-6.3
23	Gross National Product	4016.9	4075.1	4154.3	4214.8	4274.3	4346.8	4414.4	4476.9	4534.1	4594.2	5.8	6.4	6.1	3992.5	4247.6	4504.9

Table 4.

Georgia State University
College of Business Administration
Economic Forecasting Center
February 1986

Derivation of U.S. Personal Income for 1985-III and IV with Forecasts for 1986-I through 1987-IV

	1985		1986				1987				Percent Change			Annual		
	III	IV	I	II	III	IV	I	II	III	IV	84-85	85-86	86-87	1985	1986	1987
1. National Income	3228.0	3290.2	3355.1	3404.0	3455.8	3512.7	3563.5	3604.7	3638.3	3675.0	5.8	6.7	5.5	3216.4	3431.9	3620.4
2. Less: Corp. Profits Adj.	309.1	320.3	323.7	326.9	335.7	345.0	345.3	343.3	333.3	331.6	9.7	11.0	1.7	299.8	332.8	338.4
3. Social Insurance	356.4	362.3	378.4	383.3	389.0	393.1	408.6	413.9	419.4	425.0	9.1	8.8	8.0	354.9	386.0	416.7
4. Plus: Gov't Transfers	468.6	471.3	479.7	483.1	488.5	493.1	502.4	506.1	512.0	517.0	6.3	4.5	4.8	465.2	486.1	509.4
5. Old Age, Survivors, etc.	256.5	257.3	264.0	265.9	270.1	272.4	280.0	282.2	286.5	289.1	7.5	5.8	6.1	253.4	268.1	284.5
6. Unemployment Benefits	14.8	14.8	13.8	13.5	13.3	13.5	13.3	13.5	13.9	14.0	-2.2	-12.7	1.1	15.5	13.5	13.7
7. Veterans' Benefits	16.7	16.6	16.8	16.9	16.6	16.5	16.5	16.5	16.3	16.2	2.3	-0.6	-1.9	16.8	16.7	16.4
8. Employees' Retirement	67.0	68.0	69.3	70.1	70.9	72.1	73.3	74.3	75.1	76.5	9.6	6.0	5.9	66.6	70.6	74.8
9. A.F.D.C.	15.5	15.6	15.9	16.0	16.0	16.1	16.2	16.1	16.0	16.2	3.4	4.1	0.8	15.4	16.0	16.1
10. Other	98.0	98.9	99.9	100.7	101.6	102.5	103.1	103.5	104.2	105.0	3.9	3.8	2.7	97.5	101.2	104.0
11. Business Transfers	19.6	20.1	20.6	21.2	21.8	22.4	23.0	23.6	24.3	24.9	11.7	11.1	11.4	19.4	21.5	24.0
12. Interest Transfers	168.7	178.4	184.3	190.4	197.1	203.7	210.7	217.1	223.5	229.0	13.3	20.5	13.5	160.9	193.9	220.1
13. Personal Dividends	79.1	79.8	80.8	82.1	83.4	84.5	85.7	86.7	87.8	89.0	5.7	4.8	5.6	78.9	82.7	87.3
14. Equals: Personal Income	3298.5	3357.4	3418.4	3470.6	3522.0	3578.3	3631.4	3680.9	3733.2	3778.3	5.9	6.2	6.0	3297.2	3497.3	3706.0
15. Less: Personal Tax Payments	498.2	510.1	511.0	521.7	537.1	551.3	519.5	529.8	541.3	551.1	11.6	7.5	1.0	493.1	530.3	535.4
16. Equals: Disposable Personal Income	2800.2	2847.2	2907.4	2948.9	2984.9	3027.0	3111.9	3151.1	3191.9	3227.2	4.9	5.9	6.9	2801.1	2967.1	3170.5
17. Less: Consumption	2606.1	2633.3	2681.0	2710.7	2756.1	2795.8	2843.8	2889.1	2938.1	2989.7	6.6	6.0	6.6	2581.9	2735.9	2915.2
18. Less: Other Outlays	91.5	95.9	100.5	104.8	109.2	113.4	117.5	121.6	125.3	129.4	19.9	19.6	15.4	89.5	107.0	123.5
19. Equals: Personal Savings	102.6	118.1	125.9	133.4	119.6	117.8	150.6	140.4	128.5	108.1	-24.8	-4.3	6.2	129.7	124.2	131.9
20. Savings Rate (%)	3.7	4.1	4.3	4.5	4.0	3.9	4.8	4.5	4.0	3.4	-28.3	-9.7	0.0	4.6	4.2	4.2

Table 5.

Georgia State University
College of Business Administration
Economic Forecasting Center
February 1986

U.S. Federal Government Activity for 1985-III and IV with Forecasts for 1986-I through 1987-IV

	1985		1986				1987				Percent Change			Annual		
	III	IV	I	II	III	IV	I	II	III	IV	84-85	85-86	86-87	1985	1986	1987
1. Government Receipts	790.7	811.2e	817.6	825.9	845.7	864.0	848.2	857.2	870.5	885.4	8.5	6.6	3.2	786.6	838.3	865.3
2. Personal Tax & Non-Tax	355.4	363.8	362.1	369.3	381.1	391.8	356.6	363.6	371.4	378.5	12.8	7.1	-2.3	351.1	376.1	367.5
3. Corporate Profits Tax	68.9	74.5e	68.6	67.8	71.0	74.7	79.4	76.7	77.2	79.6	-7.8	2.8	10.9	68.6	70.5	78.2
4. Indirect Business Tax	55.4	57.0	55.9	53.6	53.9	54.4	54.9	55.1	55.6	56.2	2.1	-4.5	1.8	57.0	54.5	55.5
5. Contributions for Social Security	311.0	315.9	331.0	335.2	339.7	343.1	357.3	361.8	366.3	371.1	9.3	8.8	8.0	309.9	337.3	364.1
6. Government Expenditures	992.0	1023.4	1018.3	1014.1	1037.9	1047.0	1056.1	1060.1	1076.7	1094.2	9.5	4.7	4.1	983.0	1029.3	1071.8
7. Purchases of Goods and Services	364.8	376.6	372.5	368.0	377.0	386.3	384.6	384.4	390.9	401.0	13.1	6.2	3.8	353.9	376.0	390.2
8. Defense	269.9	272.5	277.2	281.1	286.0	288.8	294.3	299.4	304.0	307.9	10.6	8.1	6.4	262.0	283.3	301.4
9. Durables	83.2	81.0	83.8	86.2	88.7	89.3	91.1	93.0	94.6	96.1	13.4	11.4	7.7	78.1	87.0	93.7
10. Nondurables	13.0	13.4	13.0	12.3	11.6	11.5	11.9	12.3	12.7	13.0	4.8	-3.4	3.1	12.5	12.1	12.5
11. Military Compensation	66.8	69.1	69.7	70.1	70.1	70.6	72.1	72.5	72.3	72.4	5.9	4.2	3.1	67.3	70.1	72.3
12. Civilian Compensation	33.3	33.5	33.9	33.9	33.9	34.1	34.6	34.7	34.8	35.0	5.8	2.4	2.4	33.2	34.0	34.8
13. Other Services	67.3	69.0	70.3	72.0	75.1	77.0	78.1	80.4	82.9	84.7	15.7	13.0	10.8	65.2	73.6	81.5
14. Structures	6.4	6.4	6.5	6.6	6.6	6.3	6.5	6.5	6.7	6.7	16.4	11.1	1.5	5.9	6.5	6.6
15. Nondefense	95.0	106.1	95.3	86.9	91.0	97.5	90.3	85.0	86.9	93.1	21.0	0.8	-4.2	91.9	92.7	88.8
16. Durables	3.9	3.8	3.9	3.7	3.6	3.6	3.7	3.7	3.8	3.9	1.3	-6.3	2.0	4.0	3.7	3.8
Nondurables	18.9	29.5	18.6	10.8	15.3	21.7	13.8	8.4	9.8	15.6	---	---	---	16.3	16.6	11.9
17. CCC Inventory Change	12.5	24.0	12.7	5.3	9.2	15.3	7.5	1.6	2.8	8.7	---	---	---	10.2	10.6	5.2
18. Other Nondurables	6.3	5.5	5.9	5.5	6.1	6.4	6.3	6.8	7.0	6.9	-8.0	-1.2	13.0	6.1	6.0	6.8
19. Compensation	39.5	39.8	40.2	40.2	40.3	40.4	41.0	40.8	41.1	41.3	5.6	2.2	1.9	39.4	40.3	41.1
20. Other Services	24.8	24.6	24.4	24.1	24.0	24.1	24.3	24.5	24.6	24.5	-1.3	-1.4	1.3	24.5	24.2	24.5
21. Structures	8.0	8.4	8.2	8.1	7.8	7.7	7.5	7.6	7.6	7.5	9.8	1.0	-5.0	7.9	8.0	7.6
22 Transfer Payments	373.0	384.3	387.8	390.5	396.9	398.0	406.7	409.8	416.6	419.6	5.1	3.7	5.1	379.4	393.3	413.2
23 Grants-in-Aid to State and Local Governments	101.4	101.5	102.3	101.8	102.7	96.6	96.3	96.1	96.0	95.8	6.3	0.6	-4.8	100.3	100.9	96.1
24 Net Interest Paid	127.1	132.5	134.3	136.2	139.4	142.6	146.1	149.5	152.8	155.2	11.7	7.1	9.2	129.0	138.1	150.9
25 Deficit of Government Enterprises	15.9	26.6	21.4	17.6	21.9	23.5	22.4	20.3	20.4	22.6	1.2	-1.1	1.5	21.3	21.1	21.4
26 Federal Surplus	-201.3	-212.2e	-200.7	-188.2	-192.2	-183.0	-207.9	-202.9	-206.2	-208.8	---	---	---	-196.3	-191.0	-206.5
27 Federal Debt Held by Individuals	1331.3	1361.3	1410.3	1432.2	1488.3	1506.8	1559.8	1588.2	1646.5	1671.0	14.9	11.9	10.8	1304.6	1459.4	1616.4
28 Total Government Surplus	-144.4	-155.2e	-145.8	-134.5	-136.8	-131.6	-157.1	-152.7	-155.7	-156.8	---	---	---	-137.7	-137.2	-155.6

Table 6.

Georgia State University
College of Business Administration
Economic Forecasting Center
February 1986

Selected Economic Variables of the U.S. Economy for 1985-III and IV with Forecasts for 1986-I through 1987-IV

	1985		1986				1987				Percent Change			Annual		
	III	IV	I	II	III	IV	I	II	III	IV	84-85	85-86	86-87	1985	1986	1987
Private Economy																
1. Change in Private Hourly Wage Costs	3.2	3.4	5.2	3.7	3.9	3.6	6.0	4.7	4.6	4.9	3.4	4.0	4.7	12.97	13.49	14.11
2. Change in Output Per Worker Hour	1.9	-1.1	0.9	0.7	-0.4	2.2	0.1	0.2	-0.8	-0.8	-0.4	0.4	0.3	21.16	21.24	21.30
3. Change in Implicit Unit Labor Costs	1.3	4.6	3.8	3.2	4.5	1.3	5.7	4.4	6.2	5.5	3.9	3.5	4.4	0.613	0.635	0.663
4 Change in Private Price Deflator	2.5	3.0	2.7	2.5	3.2	3.5	4.2	4.2	4.5	4.8	3.0	2.8	3.9	1.109	1.140	1.185
Prices																
5 Consumer Price Index	323.3	326.2	328.9	331.5	334.1	337.4	341.7	345.6	349.7	353.6	3.5	3.4	4.4	322.1	333.0	347.7
6. Industrial Commod (Producer Price Index)	323.5	324.9	322.6	322.2	322.4	324.8	327.0	328.7	330.2	333.7	0.4	-0.3	2.1	324.0	323.0	329.9
Corporate Economy																
7 After Tax Profit	141.1	151.2	140.5	138.0	144.9	153.3	149.9	145.5	146.4	150.5	-2.5	2.0	2.7	141.3	144.2	148.1
8 Inventory Profits	4.7	-9.0	5.8	6.5	-1.3	-8.8	-10.0	-2.0	-11.0	-16.8	---	---	---	-0.3	0.5	-10.1
9. Genuine Profits	221.7	225.4	236.5	240.8	245.3	249.8	245.4	247.1	236.5	231.7	10.8	14.2	-1.2	212.8	243.1	240.2
10. Mean Closing Dow Jones	1329.1	1433.3	1556.4	1631.5	1684.5	1663.5	1637.5	1563.1	1536.5	1553.9	12.7	23.0	-3.7	1328.1	1634.0	1572.8
11. Mean Closing NY Composite	109.12	113.57	120.63	124.85	129.36	127.72	126.84	120.85	119.89	118.23	16.9	16.2	-3.3	108.1	126.6	121.5
Financial																
12. Monetary Base	229.5	233.0	237.0	240.9	245.1	249.1	253.1	257.3	261.0	265.2	7.3	7.2	6.6	226.8	243.0	259.2
13 Checkable Deposits	437.7	448.0	456.7	461.1	467.7	476.1	483.5	491.7	496.3	502.7	9.6	8.7	6.0	428.3	465.4	493.6
14 M1	604.5	617.8	629.2	636.2	645.8	656.9	667.4	678.5	686.2	695.9	8.9	8.2	6.2	593.3	642.0	682.0
15. Velocity of M1	6.579	6.531	6.537	6.559	6.551	6.546	6.541	6.524	6.531	6.524	-2.6	-1.7	-0.3	6.838	6.548	6.530
16 M2	2510.7	2547.7	2603.5	2648.5	2698.7	2754.9	2809.1	2861.7	2911.2	2965.0	8.9	7.9	7.9	2480.7	2676.4	2886.8
17. Velocity of M2	1.584	1.584	1.580	1.575	1.568	1.561	1.554	1.547	1.539	1.531	-2.7	-1.4	-1.8	1.593	1.571	1.543
18 Federal Funds	7.90	8.10	7.96	7.42	7.31	7.63	7.86	7.56	6.93	6.72	-20.8	-6.4	-4.1	8.10	7.58	7.27
19 Prime Rate	9.50	9.50	9.50	9.23	9.00	9.00	9.36	9.50	9.21	8.83	-17.5	-7.6	0.5	9.93	9.18	9.23
20. 6 Month T-Bills	7.30	7.26	7.08	6.89	6.85	7.21	7.42	7.12	6.67	6.48	-22.1	-8.3	-1.2	7.64	7.01	6.92
21. Seasoned AAA Corp.	11.03	10.58	10.09	9.73	9.49	9.58	9.93	10.21	10.03	9.75	-10.5	-14.5	2.6	11.37	9.72	9.98
22. FHA Mortgage Rates	12.14	11.73	11.15	10.91	10.58	10.47	10.86	10.96	10.93	10.72	-9.9	-13.4	0.8	12.45	10.78	10.87
Miscellaneous																
23. Housing Starts	1664	1716	1854	1801	1719	1664	1689	1598	1519	1557	-1.7	1.3	-9.6	1736	1760	1591
24. Single Family Starts	1033	1072	1133	1103	1081	1108	1146	1082	1016	1028	-2.5	2.9	-3.5	1075	1106	1068
25. Unit Auto Sales	12.43	10.30	10.60	9.65	10.25	9.78	10.10	10.20	10.10	10.15	7.0	-9.5	0.7	11.13	10.07	10.14
26. Civilian Employment	107.193	107.996	108.824	109.532	110.184	110.685	111.233	111.703	112.097	112.580	2.1	2.5	1.9	107.170	109.806	111.903
27. Unemployment Rate	7.1	7.0	6.8	6.6	6.6	6.6	6.5	6.5	6.6	6.6	-4.2	-7.5	-1.5	7.2	6.7	6.6
28. Industrial Production	124.5	125.2	127.0	127.8	128.3	128.7	128.9	129.0	128.5	127.8	2.2	2.8	0.5	124.5	128.0	128.6
29. Asset-Consumption Ratio	3.132	3.195	3.262	3.320	3.320	3.352	3.325	3.279	3.193	3.155	2.2	5.5	-3.4	3.143	3.315	3.201

Table 7.

Georgia State University
College of Business Administration
Economic Forecasting Center
February 1986

U. S. Foreign Trade Accounts for 1984 and 1985 with Forecasts for 1986 and 1987

	1984	1985	1986	1987	Percent Change 84-85	85-86	86-87
Exports of U.S. Merchandise	217641	213266	212885	230675	-2.0	-0.2	8.4
Food & Live Animals	24463	19268	18595	19903	-21.2	-3.5	7.0
Beverages & Tobacco	2849	2957	3133	3288	3.8	5.9	4.9
Crude Materials	20154	16948	16910	18385	-15.9	-0.2	8.7
Mineral Fuels	9310	9971	10045	10128	7.1	0.7	0.8
Animal & Vegetable Oils	1922	1434	1335	1485	-25.4	-6.9	11.2
Chemicals	22309	21809	22240	24355	-2.2	2.0	9.5
Manufactured Goods	15133	14018	13750	15373	-7.4	-1.9	11.8
Machinery, Trans. Equipment	89904	94326	93143	101178	4.9	-1.3	8.6
Miscellaneous Manufacturing	15668	15354	15773	17035	-2.0	2.7	8.0
Commodities, n.e.c.	10098	10960	11620	12745	8.5	6.0	9.7
Imports of Merchandise	325651	345989	361328	370731	6.2	4.4	2.6
Food & Live Animals	17973	18645	19639	20580	3.7	5.3	4.8
Beverages & Tobacco	3653	3721	3800	4140	1.9	2.1	8.9
Crude Materials	11117	10400	10245	10998	-6.5	-1.5	7.3
Mineral Fuels	60889	53924	45902	46211	-11.4	-14.9	0.7
Animal & Vegetable Oils	696	672	624	673	-3.4	-7.2	7.8
Chemicals	13686	14566	14603	15213	6.4	0.3	4.2
Manufactured Goods	46070	46510	47725	48605	1.0	2.6	1.8
Machinery, Trans. Equipment	119078	137771	151791	155850	15.7	10.2	2.7
Miscellaneous Manufacturing	42510	48726	55330	56610	14.6	13.6	2.3
Commodities, n.e.c.	9848	11229	11620	11853	14.3	3.5	2.0
Foreign Transactions							
Total Exports	384.7	370.4	377.6	412.1	-3.7	1.9	9.2
Merchandise Exports	224.1	219.3	217.2	233.6	-2.2	-1.0	7.6
Factor Income	101.6	91.0	99.0	113.9	-10.4	8.7	15.0
Other Services	59.0	60.2	61.4	64.7	2.1	2.1	5.3
Total Imports	443.9	444.8	477.1	497.0	0.2	7.3	4.2
Merchandise Imports	336.0	337.0	361.1	371.9	0.3	7.2	3.0
Factor Income	53.6	50.3	55.6	62.3	-6.2	10.4	12.1
Other Services	54.3	57.5	60.4	62.9	6.0	5.1	4.1
Transfer	12.1	15.3	14.6	15.7	27.0	-4.7	7.4
Government Interest	19.8	21.3	21.8	23.9	7.8	2.0	9.8
Net Foreign Investment	-91.0	-111.1	-135.9	-124.4	---	---	---
Trade Weighted Value of Dollar (3/73=100)	135.3	143.4	114.5	106.3	3.7	-20.2	-7.1

Table 8. Economic Forecasting Center February 1986

Implicit Price Deflators for Personal Consumption Expenditures for 1985-III and IV with Forecasts for 1986-I through 1987-IV

	1985		1986				1987				Percent Change			Annual		
	III	IV	I	II	III	IV	I	II	III	IV	84-85	85-86	86-87	1985	1986	1987
Durable Goods	104.6	104.3	104.7	104.9	105.5	106.2	106.7	107.5	108.3	109.3	0.7	0.6	2.5	104.7	105.3	108.0
% Change	-0.8	-1.1	1.4	0.9	2.3	2.7	1.9	3.0	3.0	3.7						
Automobiles	108.0	108.1	108.1	108.6	109.0	109.9	110.6	111.4	112.2	113.4	1.9	0.7	2.3	108.1	108.9	111.9
% Change	-0.5	0.7	-0.2	1.8	1.5	3.4	2.6	2.9	2.9	4.3						
Furniture	99.5	99.6	99.7	99.9	100.2	100.7	101.0	101.6	102.3	102.9	-1.0	0.1	1.8	100.0	100.1	102.0
% Change	-2.5	0.1	0.6	0.8	1.2	2.0	1.2	2.4	2.8	2.4						
Other Durables	106.1	105.6	106.3	107.1	108.0	109.0	109.7	110.8	111.9	113.1	1.1	1.8	3.5	105.7	107.6	111.4
% Change	1.0	-1.9	2.7	3.0	3.4	3.8	2.6	4.1	4.0	4.4						
Nondurables	107.6	109.0	109.6	109.9	110.4	111.5	112.5	113.3	114.4	115.8	2.2	2.5	3.3	107.7	110.4	114.0
% Change	0.4	5.3	2.2	1.1	1.8	4.0	3.6	2.9	3.9	5.0						
Food	108.3	110.0	111.4	111.8	112.5	113.6	114.8	115.8	117.2	118.5	1.8	3.4	3.8	108.7	112.3	116.6
% Change	0.7	6.7	5.0	1.4	2.5	4.0	4.3	3.5	4.9	4.5						
Apparel	106.0	107.9	108.3	108.9	109.9	111.6	112.5	113.5	114.3	116.3	3.0	3.1	4.1	106.3	109.7	114.2
% Change	-0.2	7.4	1.5	2.2	3.7	6.3	3.3	3.6	2.8	7.2						
Gasoline & Oil	96.7	96.3	94.1	92.8	91.5	91.8	91.9	90.8	90.5	90.6	0.8	-3.6	-1.7	96.0	92.6	91.0
% Change	-4.2	-1.8	-8.8	-5.4	-5.5	1.3	0.4	-4.7	-1.3	0.4						
Fuel Oil	90.9	95.2	92.1	89.8	88.6	87.7	88.4	87.0	86.1	86.7	-3.7	-3.3	-2.8	92.6	89.6	87.1
% Change	-10.0	20.3	-12.4	-9.6	-5.2	-4.0	3.2	-6.2	-4.1	2.8						
Other Nondurables	116.1	116.5	117.4	118.3	119.5	120.3	121.6	123.0	124.5	126.1	3.8	3.1	4.1	115.3	118.9	123.8
% Change	4.4	1.7	3.0	3.1	4.1	2.7	4.4	4.7	5.0	5.2						
Services	117.4	118.9	120.2	121.6	123.2	124.8	126.5	128.2	129.9	131.6	4.7	4.9	5.4	116.8	122.5	129.1
% Change	4.5	5.0	4.6	4.7	5.4	5.3	5.6	5.5	5.4	5.3						
Housing	119.6	121.8	123.5	125.4	127.4	129.5	131.6	133.8	136.1	138.3	6.2	6.7	6.7	118.5	126.5	135.0
% Change	7.8	7.6	5.7	6.3	6.5	6.8	6.6	6.9	7.1	6.6						
Electricity & Gas	115.6	113.8	112.8	113.0	114.2	113.5	114.0	115.2	115.9	114.9	2.0	-1.2	1.4	114.7	113.4	115.0
% Change	1.2	-6.0	-3.4	0.7	4.3	-2.4	1.8	4.3	2.5	-3.4						
Household Operations	117.6	118.1	119.5	120.9	122.5	123.6	124.9	126.5	127.9	129.6	4.1	4.5	4.6	116.4	121.6	127.2
% Change	6.1	2.0	4.7	4.8	5.4	3.6	4.3	5.2	4.5	5.4						
Transportation	113.0	115.3	116.1	116.7	117.9	119.7	121.3	122.4	123.5	125.0	3.1	4.1	4.6	113.0	117.6	123.1
% Change	4.5	8.4	2.6	2.1	4.2	6.2	5.5	3.7	3.6	4.9						
Medical Care	120.1	122.1	124.2	126.4	128.6	130.8	133.3	135.4	137.8	140.2	5.9	6.5	7.2	119.7	127.5	136.7
% Change	3.1	6.8	7.1	7.3	7.1	7.0	7.9	6.5	7.3	7.2						
Other Services	114.6	115.6	116.6	117.6	118.4	119.5	120.7	122.0	123.0	124.3	3.4	3.3	3.8	114.3	118.0	122.5
% Change	2.5	3.5	3.5	3.5	2.7	3.8	4.1	4.4	3.3	4.3						
Personal Consump Exp	111.9	113.1	114.0	114.9	115.9	117.1	118.5	119.7	121.1	122.5	3.2	3.4	4.3	111.7	115.5	120.5
% Change	2.2	4.4	3.2	3.2	3.5	4.2	4.9	4.1	4.8	4.7						
Consumer Price Index	323.3	326.2	328.9	331.5	334.1	337.4	341.7	345.6	349.7	353.6	3.5	3.4	4.4	322.1	333.0	347.7
% Change	2.8	3.6	3.4	3.2	3.2	4.0	5.2	4.6	4.8	4.5						

Table 9.

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Implicit Price Deflators with Annual Percentage Changes for 1985-III and IV with Forecasts for 1986-I through 1987-IV

	1985		1986				1987				Percent Change			Annual		
	III	IV	I	II	III	IV	I	II	III	IV	84-85	85-86	86-87	1985	1986	1987
GNP Deflator	112.1	113.0	113.9	114.7	115.6	116.6	117.9	119.1	120.4	121.8	3.3	3.1	4.0	111.7	115.2	119.8
% Change	2.9	3.3	3.2	2.8	3.2	3.5	4.5	4.1	4.4	4.6						
Personal Cons. Exp	111.9	113.1	114.0	114.9	115.9	117.1	118.5	119.7	121.1	122.5	3.2	3.4	4.3	111.7	115.5	120.5
% Change	2.2	4.4	3.2	3.2	3.5	4.2	4.9	4.1	4.8	4.7						
Private Domestic Investment	103.3	103.5	103.9	104.5	105.0	105.9	106.7	107.5	108.5	109.4	1.1	1.7	3.1	103.1	104.8	108.0
% Change	2.8	0.8	1.6	2.3	1.9	3.5	3.1	3.0	3.8	3.4						
Structures	102.8	103.1	103.4	104.0	105.0	106.1	107.0	107.9	108.8	109.6	3.5	2.0	3.5	102.6	104.6	108.3
% Change	0.4	1.2	1.2	2.3	3.9	4.3	3.4	3.4	3.4	3.0						
Producers' Durables	100.1	100.0	100.1	100.5	100.9	101.5	102.1	102.8	103.5	104.4	0.4	0.9	2.4	99.9	100.8	103.2
% Change	2.0	-0.4	0.4	1.6	1.6	2.4	2.4	2.8	2.8	3.5						
Residential Structures	108.2	109.0	110.0	111.2	112.1	113.7	114.9	115.9	117.2	118.5	1.7	3.3	4.4	108.2	111.8	116.6
% Change	1.1	3.0	3.7	4.4	3.3	5.8	4.3	3.5	4.6	4.5						
Exports	102.7	102.6	102.3	102.7	103.2	104.1	105.0	105.9	107.0	108.2	-0.8	0.2	3.3	102.8	103.1	106.5
% Change	-1.5	-0.4	-1.2	1.6	2.0	3.5	3.5	3.5	4.2	4.6						
Imports	95.3	95.7	95.5	96.1	96.9	98.3	99.3	100.2	101.4	102.8	-1.9	1.1	4.4	95.6	96.7	100.9
%Change	-1.7	1.7	-0.8	2.5	3.4	5.9	4.1	3.7	4.9	5.6						
Federal	110.2	110.1	110.9	111.8	112.3	112.5	113.7	114.8	115.8	116.6	3.0	1.6	3.0	110.2	111.9	115.2
% Change	-0.7	-0.4	2.9	3.3	1.8	0.7	4.3	3.9	3.5	2.8						
Federal Purchases	107.6	106.4	106.8	108.0	108.8	108.9	109.5	111.1	112.6	113.7	2.3	0.8	3.3	107.2	108.1	111.7
% Change	-0.7	-4.4	1.5	4.6	3.0	0.4	2.2	6.0	5.5	4.0						
Federal Value Added	114.6	117.0	118.0	118.3	118.4	119.0	121.1	121.3	121.4	121.8	4.7	3.0	2.5	115.0	118.4	121.4
% Change	0.7	8.6	3.5	1.0	0.3	2.0	7.2	0.7	0.3	1.3						
State & Local	117.5	119.4	121.0	122.5	123.8	125.4	127.2	129.0	130.7	132.4	5.7	5.4	5.4	116.9	123.2	129.8
% Change	4.9	6.6	5.5	5.1	4.3	5.3	5.9	5.8	5.4	5.3						
State & Local Purchases	110.5	112.0	112.5	113.2	114.1	115.3	116.5	117.9	119.2	120.7	4.0	3.3	4.2	110.1	113.8	118.6
% Change	2.9	5.5	1.8	2.5	3.2	4.3	4.2	4.9	4.5	5.1						
State & Local Value Added	122.6	124.8	127.2	129.3	131.2	132.9	135.3	137.4	139.4	141.3	6.9	6.9	6.3	121.7	130.2	138.4
% Change	6.4	7.4	7.9	6.8	6.0	5.3	7.4	6.4	6.0	5.6						

Table 10.

Georgia State University
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Consumption Details for 1985-III and IV with Forecasts for 1986-I through 1987-IV

	1985		1986				1987				Percent Change			Annual		
	III	IV	I	II	III	IV	I	II	III	IV	84-85	85-86	86-87	1985	1986	1987
CURRENT DOLLARS																
Durable Goods	376.0	359.2	372.2	368.1	377.2	376.9	382.8	387.8	391.0	396.1	9.0	3.5	4.2	360.8	373.6	389.4
Motor Vehicles & Parts	183.0	159.3	169.6	163.2	169.9	167.6	172.0	175.0	175.9	178.9	9.0	-0.1	4.7	167.7	167.6	175.5
Furniture	128.6	133.9	135.0	136.4	137.5	138.6	139.3	140.3	141.6	142.6	8.0	6.1	3.0	129.0	136.9	141.0
Other	64.4	66.0	67.6	68.5	69.8	70.7	71.5	72.5	73.5	74.6	10.8	7.8	5.6	64.1	69.2	73.0
Nondurable Goods	914.5	929.4	940.3	948.8	958.8	971.4	984.0	996.5	1011.4	1027.5	4.6	4.6	5.2	912.5	954.8	1004.9
Food	475.9	483.3	491.9	496.9	503.0	509.7	516.4	523.8	532.2	540.7	5.0	5.5	5.6	474.2	500.4	528.3
Clothing & Shoes	155.7	159.8	161.7	164.0	166.4	169.7	172.0	174.8	177.9	182.0	5.9	6.0	6.8	156.2	165.5	176.7
Gas & Oil	92.2	93.7	91.4	90.4	89.6	90.0	90.1	89.3	89.1	89.2	1.5	-1.8	-1.0	92.0	90.4	89.4
Fuel Oil & Coal	16.0	15.9	15.7	15.4	15.3	15.3	15.4	15.1	15.0	15.0	-11.6	-2.7	-1.9	15.9	15.4	15.1
Other	174.8	176.8	179.6	182.1	184.5	186.7	190.1	193.5	197.2	200.6	5.8	5.1	6.6	174.3	183.2	195.4
Services	1315.6	1344.6	1368.5	1393.8	1420.1	1447.5	1477.0	1504.8	1535.7	1566.7	7.3	7.6	8.1	1308.7	1407.5	1520.9
Housing	408.0	418.0	426.6	435.9	445.5	455.6	465.7	476.2	487.2	497.9	8.6	9.3	9.3	403.3	440.9	481.8
Household Operations Gas & Electric	87.6	87.5	87.4	88.0	89.3	89.7	91.1	90.7	92.3	93.0	5.0	-0.2	3.6	88.8	88.6	91.8
Household Operations Other	85.7	86.6	88.0	89.3	90.9	92.2	93.7	95.1	96.7	98.4	3.7	6.7	6.5	84.4	90.1	96.0
Transportation	86.7	88.7	90.3	91.1	92.3	94.1	95.7	97.4	99.2	101.1	5.7	5.9	7.0	86.8	92.0	98.4
Medical Care	281.8	288.9	295.6	302.2	309.0	315.9	323.4	330.4	338.0	345.6	8.0	9.1	9.4	280.3	305.7	334.4
Other	365.8	375.0	380.6	387.3	393.1	400.0	407.4	415.0	422.3	430.1	7.2	6.9	7.3	365.1	390.3	418.7
CONSTANT DOLLARS																
Durable Goods	359.3	344.3	355.9	350.8	357.7	355.0	358.6	360.6	360.9	362.4	8.2	2.9	1.6	344.7	354.9	360.6
Motor Vehicles & Parts	169.5	147.3	156.9	150.3	155.9	152.5	155.5	157.1	156.8	157.8	7.0	-0.8	1.9	155.2	153.9	156.8
Furniture	129.2	134.5	135.4	136.5	137.2	137.6	137.9	138.1	138.4	138.6	9.1	6.0	1.2	129.0	136.7	138.3
Other	60.7	62.5	63.6	64.0	64.6	64.9	65.2	65.4	65.7	66.0	9.6	5.9	2.0	60.7	64.3	65.6
Nondurable Goods	849.8	853.0	858.0	863.5	868.1	871.5	874.4	879.2	883.9	887.6	2.3	2.1	1.8	847.4	865.3	881.3
Food	439.5	439.2	441.6	444.5	447.1	448.7	449.8	452.3	454.1	456.3	3.2	2.1	1.7	436.4	445.5	453.1
Clothing & Shoes	146.9	148.1	149.3	150.6	151.4	152.1	152.9	154.0	155.6	156.5	2.8	2.7	2.6	146.9	150.9	154.8
Gas & Oil	95.3	97.3	97.1	97.4	97.9	98.0	98.0	98.3	98.4	98.4	0.7	1.8	0.7	95.9	97.6	98.3
Fuel Oil & Coal	17.6	16.7	17.0	17.1	17.3	17.5	17.4	17.3	17.4	17.3	-8.1	0.6	0.7	17.1	17.2	17.4
Other	150.6	151.7	153.0	153.9	154.4	155.2	156.3	157.3	158.4	159.1	2.0	2.0	2.4	151.2	154.1	157.8
Services	1120.4	1131.3	1138.7	1145.9	1152.7	1160.2	1167.8	1173.6	1182.1	1190.2	2.5	2.6	2.5	1120.5	1149.4	1178.4
Housing	341.2	343.2	345.4	347.6	349.7	351.8	353.9	355.9	358.0	360.0	2.2	2.5	2.4	340.2	348.6	357.0
Household Operations Gas & Electric	75.8	76.9	77.5	77.9	78.2	79.0	79.9	78.9	79.6	80.9	3.0	1.0	2.1	77.4	78.2	79.8
Household Operations Other	72.9	73.3	73.6	73.9	74.2	74.6	75.0	75.2	75.6	75.9	-0.4	2.2	1.8	72.5	74.1	75.4
Transportation	76.7	76.9	77.8	78.1	78.3	78.6	78.9	79.6	80.3	80.9	2.6	1.8	2.2	76.8	78.2	79.9
Medical Care	234.7	236.7	238.0	239.1	240.3	241.5	242.6	244.0	245.3	246.5	2.0	2.4	2.0	234.1	239.7	244.6
Other	319.1	324.4	326.4	329.3	332.0	334.7	337.5	340.2	343.3	346.0	3.6	3.5	3.4	319.4	330.6	341.8

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Economic Forecasting Center

Georgia State University. College of Business Administration. May 1986

DEFLATION AND GROWTH IN 1986 - INFLATION AND STAGNATION IN 1987

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Summary

Oil prices have fallen faster and farther than anticipated three months ago. As a result, the United States will save more than $25 billion on its oil import bill. While this transfer of purchasing power back to the United States will significantly improve economic activity, a significant oil producing industry in the United States already has consolidated its activities. Thus, weakness from oil price declines has surfaced prior to the gains that will develop when millions of American consumers recognize that their purchasing power has significantly improved in 1986. Therefore, the weakness that surfaced early in the year should be transformed into substantial strength in the latter half of the year.

Also, the dollar's declining value should increase the competitiveness of American goods. However, more substantial declines in oil prices have occurred in other countries whose currencies have appreciated against the dollar. This means that raw material costs are declining significantly in those countries relative to the United States. Therefore, the impact of a 30% decline in the trade-weighted value of the American dollar has been mitigated to some extent by as much as a five to seven percentage point improvement in production costs in some of our competitive partners relative to the United States before adjustment for currency changes. Therefore, the stimulus generated by a falling dollar will not be as significant as some analysts anticipate. There will be some stimulus, however, that will increase economic activity late in 1986 and early in 1987.

Offsetting the favorable oil and international competitiveness plusses will be dramatic minuses as a result of substantial overbuilding. In 1985, office space completions exceeded a relatively robust 345 million square feet of office absorption by more than 30 million square feet. Absorption in 1986 almost certainly will grow more slowing and is projected to grow even more slowly in 1987. As a result, a substantial slump in nonresidential construction is expected to develop in the second half of this year and persist through 1987. Also, excess rental properties will require downward adjustments in construction outlays once the simulus from falling mortgage rates has been exhausted late in 1986. Single family housing should continue to perform well as mortgage rates are projected to remain below 10%, but demographic conditions will not support 1.3 million single-family housing starts indefinitely. Therefore, even housing will be trending downward from a projected 1.93 million starts in 1986.

Government expenditures also will be providing reduced support for the economy late in 1986 and in 1987. Current budgetary surpluses at the state and local level will revert to slight deficits next year as general revenue sharing is curtailed. In addition, the southwest will be suffering through an oil-induced recession.

Inventory investment and fixed investment both should rebound significantly in the latter half of 1986 as deflationary pressures gradually give way to industrial commodity inflation. A surge of inventory investment should strengthen economic activity through the first half of 1987, but no substantial follow-through is anticipated. Thus, a recession cannot be ruled out toward the end of 1987, although a projected adjustment is expected to be mild.

Finally, inflation should reappear in the second half of 1986 and accelerate slightly in 1987 following six months of deflationary pressures induced by falling oil prices. The CPI will increase only slightly more than two percent in 1986 but should be growing four percent in 1987 and accelerating to more than five percent early in 1988. Wage costs are expected to remain modest, expanding less than four percent in 1987. However, significant increases in Social Security taxes scheduled early in 1988 should generate accelerating wage cost pressures at that time.

Recent Activity

In the past few months the negative impact from declining oil prices has dominated the economic scene. Partially as a result of reduced oil exploration and the construction of machinery related to oil activity, industrial production has fallen sharply. These declines have caused manufacturing employment to decline and slow the growth of payroll employment to less than its 260,000 monthly average.

Of course, declining oil prices have dramatically reduced the inflation indices. The CPI is expected to fall 1.9% in the second quarter and increase only 2.0% for the entire year. Prices as measured by the GNP deflator should increase less than one percent during the spring while the deflator for consumer expenditures will fall slightly. The industrial commodities portion of the Producer Price Index is expected to fall 2.8% in 1986 while the PPI for finished goods should decline by almost two percent.

These decreasing prices have significantly increased consumer purchasing power. Evidence of increased consumer activity appeared in March with significant gains in purchases of general merchandise and apparel. In April, consumers began increasing their purchases of automobiles following a significant March slump. Consumer spending remains surprisingly vigorous in light of relatively low savings rates.

Falling oil prices also have excited investors in long-term debt instruments. A rally in the long-term government market abetted by the absence of a long-term government bond in the deficit refunding package in April caused long-term interest rates to momentarily fall below yields on overnight interbank borrowings. Corporations rushed to take advantage of these reduced yields and began retiring some of their short-term borrowing instruments. As a result, commerical paper outstanding fell sharply in April and the yield on commercial paper declined to 6.4%. This necessitated a decline in the discount rate, which was followed by a cut in the prime rate.

This reduction in interest rates generated two important events. First, falling interest rates, especially long-term interest rates, led to significant declines in the mortgage rate. This, in turn, reawakened the housing market. Traditionally, such improvements in housing affordability lead to the unbundling of households. After three years of already significant housing activity, however, there may be less unbundling and more rotation out of rental units and into single-family units than is currently perceived. If so, failure to reduce rental unit activity will lead to excessive housing units late in 1986 or early in 1987. At present, however, housing starts are at a vigorous two million level.

Second, falling interest rates led to dramatic gains in stock market values. Indeed, our stock market formulas suggest that values in excess of 1900 as measures by the Dow-Jones index can be justified by prevailing economic conditions. Of course, interest rates are expected to rise later in the year when economic activity rebounds and when inflation reappears. While earnings will also improve, gains in earnings are not expected to be sufficient to offset adverse effects from rising rates of interest. If the stock market anticipates this falloff, which is predicted to continue until 1600 on the Dow-Jones by the middle of 1987, the stock market may never reach the higher values justified by current economic conditions.

Most people have been surprised by the magnitude of oil price declines and therefore have assumed that prices will continue to fall until production is again curtailed sufficiently to eliminate excess inventories. To be sure, while undesired inventories are continuing to accumulate, oil prices will continue to sag. However, the level of desired inventories depends upon the anticipated costs of holding those inventories, including the cost of possible price change while they are being held. When prices are expected to fall, oil inventories are dumped on the market, thus accentuating normal price movements. When those excess inventories finally are absorbed, prices will increase. In fact, inventories of oil products have fallen significantly in recent weeks. When the driving season arrives late in May, sufficient additional demand should surface to begin firming prices. This will encourage refiners to once again raise their inventories to more normal levels. The result will be a spurt in oil demand that should lift oil prices by several dollars per barrel. Thus, the lowest oil prices that should be recorded this year probably already have been quoted.

More significantly, the lowest interest rates for this cycle may already have developed for long-term government bonds and for commerical paper. While oil prices have been falling, oil companies have been slashing their capital spending programs and have discovered that their financing needs to support oil inventories have been reduced by more than $20 billion because of reduced oil prices. The inventory and capital spending reduction together account for more than a $30 billion reduction in borrowing requirements. Deflation also has lowered the borrowing needs to support inventory in the plastic and chemical industries. However, all the benefits from this reduced financing will be in the marketplace before the end of spring.

At the same time that oil prices were falling, fixed investment also was plunging. Some of this weakness in investment activity is the result of hesitancy by manufacturers who have not seen the firming of orders that a weaker dollar should generate. However, a large part of the first quarter dip in fixed investment is in the response to the surge in fixed investment that developed late in 1985. Fears of tax changes caused many purchasing agents to shift some of their capital purchases into 1985 at the expense of the early months of 1986. If tax changes materialize, a similar shift in investment activity may develop late in 1986 and early in 1987. Now that fixed investment is beginning to intensify, interest rate pressures should once again reappear.

While interest rates may be trending upward they are not expected to rise sharply. Restraining the upward movement in interest rates will be reduced government borrowings. Falling oil prices have significantly reduced the cost to government of acquiring nondurables, much of which is oil. In addition, reduced interest rates have significantly reduced these expenditures. Also, moderating inflationary pressures will insure that any cost-of-living adjustment will not be significant. (By law, no cost-of-living adjustments are required unless the CPI has increased by three percent between the third quarter of 1985 and the third quarter of 1986. Our estimates show that the CPI will increase less than two percent. However,

the Congress is expected to authorize a cost-of-living adjustment rather than face the difficult problem of explaining why no adjustments will come to senior citizens as a result of a CPI that will be announced ten days before the Congressional elections.) Even without vigorous Gramm-Rudman restraints upon the federal budget, the national income accounts measure of the deficit should decrease from $191 billion in 1986 to $170 billion in 1987.

Of course, interest rates could rise more sharply than anticipated if foreign investors become significantly upset concerning investment prospects in the United States. Sluggish economic conditions in 1987 could lead to just such investor concerns. Such a condition would cause a dramatic decline in the dollar's value, leading to inflationary fear and some increased inflation that almost certainly would elicit a Federal Reserve response. However, as long as foreign investors believe that central banks will maintain the will to stabilize exchange rates, fears of further foreign exchange erosion will disappear. Therefore, concerns about a significant fall in the dollar's value leading to Federal Reserve restraint and higher interest rates are valid but they are not currently expected to be a substantial force upon interest rate movements in the next eight quarters.

In our past forecasts, we assumed that significant tax changes would redirect the tax codes toward a more lenient treatment of earnings from labor and more restrictive treatment of earnings from capital. Also, corporate taxes where expected to increase while personal taxes where expected to be lowered. This would shift activity toward consumers at the expense of investment. While tax reform is still vigorously being debated in the Senate, the current progress of that bill appears to be minimal. As a result, tax reform no longer is the most likely assumption. Nevertheless, fears of possible tax reform will distort capital spending programs by shifting activity into late 1986 at the expense of 1987 and by intensifying real estate development in 1986 at the expense of later years. Therefore, even without the effects of tax reform, the fear of tax reform will create increased activity in 1986 at the expense of 1987 and beyond.

Many analysts believe that the delayed effects from oil price declines along with the lagged effects of a falling dollar will be more than sufficient to strengthen economic activity in 1987. Such analysis fails to realize the building excesses that already exist in construction, the absense of any further pentup demand in housing, and the near satiation of consumer needs. While stimulus from declining oil prices is anticipated in the latter half of 1986, this spurt of economic activity will quickly evaporate once oil prices begin firming, interest rates begin to rise, and stock values begin to fall. Thus, 1987 is seen as a year of less significant economic strength than 1986 with the possibility that recessionary pressures could reappear before the end of that year.

Already, our projections suggest that after-tax returns on long-term government debt instruments will be in single-digits. No significant capital gains are anticipated. Tax-exempt bonds have a higher expected after-tax rate of return, although capital gains will be difficult in that sector as well. Equities still have potential for some capital gains, although our 12-month projections indicate that equity values will be lower then. In other words, investors will need to accept more risk in order to capture double-digit after-tax rates of return. Obviously, such a conclusion means that the bond and stock market must be nearing a peak. (We already believe that a peak has been reached in long-term government bonds.) Although some commodities could generate attractive returns, especially some oil related activities, favorable investment returns will be difficult to generate in the next year.

Recent Performance

Both inflation and economic activity were less than anticipated in the first quarter and the source of both errors appears to be a greater fall in oil prices than anticipated. In our earlier forecast we analyzed the near-term price response of oil demand and supply to a perceived four to five million barrel overhang and concluded that prices could fall to the $15-$18 range. Missing from this analysis was an additional momentary supply of oil created by the dumping of previously held inventories on the marketplace in order to avoid significant inventory losses. This momentary supply temporarily forced oil prices below $10 per barrel and caused an abrupt cancellation of production activity in the oil exploration industry. When the momentary supply is exhausted (i.e., when prices have fallen sufficiently so that fear of further price decline is diminished), and this could be as early as the May driving season, prices will increase to levels that were justified without consideration of this momentary element. Thus, prices should rebound to $15-$18 per barrel in the second half of 1986 and then gradually trend upward in 1987 and beyond.

Nevertheless, the more significant near-term decline in oil prices will have a restraining effect upon wage costs well into 1987. Therefore, lower near-term inflationary prospects lead to lower inflation estimates thoughout the forecast period.

Some of the reduced investment activity generated by oil exploration will not reappear even after oil prices rebound. Therefore, investment activity will also be lower than previously anticipated throughout the forecast period. As governments are major purchasers of energy products, their expenditures also will be lower throughout the period than previously contemplated. In addition, the lower rates of inflation will lead to lower interest rates than previously had been projected. This will also moderate federal government spending, leading to significantly reduced deficits. Of course, little revenues will be collected from the windfall profits tax while profits generated in the petroleum industry will be severely restrained. As a result, government receipts will also be growing more slowly than previously projected.

Lower rates of interest justify higher stock market values, so our projections of Dow-Jones averages for the next eight quarters are considerably higher than in earlier projections.

Despite lower inflation and economic activity, the money stock grew faster than anticipated. Apparently, an increased demand for checkable deposits was generated by a narrowing of the gap between yields on short-term savings instruments and on balances in checking accounts. In effect, the savings component of the money stock was dramatically enhanced by falling short-term rates. This generally means that relationships between the money stock and economic activity are even more tenuous at low and falling short-term interest rates than normally is the case. When short-term interest rates begin rising again late in 1986, money stock is expected to grow much more slowly and a larger portion of that growth will be used to faciliate transactions. Demand for checkable deposits has been altered to reflect the closing gap between short-term interest rates, as measured by the yield on six-month treasury bills, and the standard rate paid on checking accounts that pay interest.

Assumptions

An apparent reduction in the momentum to generate tax reform has caused a reversal of assumptions concerning possible tax changes in this forecast. In the February report tax changes were assumed to become effective January 1987 that would significantly alter the tax burdens of corporations relative to individuals. In

addition, favorable depreciation guidelines were expected to be made less favorable. In this forecast, no tax code revisions of any substance have been assumed. As a result, savings rates plunges to levels that may not be sustainable late in the forecast period. At the same time, slightly greater amounts of investment expenditures are forthcoming than would have occurred under alternative assumption.

Assumptions concerning the return of oil prices to a range of $15-$18 per barrel have been explained above. The result of this assumption is to increase prices for petroleum products early in 1987.

No Gramm-Rudman restraints upon the federal budget were assumed although significant budgetary restraint was anticipated. Agricultural price supports were expected to diminish further toward world markets late in 1986. Agricultural exports were expected to rebound following this further price support adjustment. General revenue sharing was phased out as provided by current law. Neither the military nor civilian government employees were assumed to receive a pay increase through the remainder of 1986. Pay increases of four percent were assumed to be dispersed to both civilian and military personnel in the first quarter of 1987 and again in the first quarter of 1988.

The Federal Reserve is expected to be fully accommodative through 1986 but to become slightly restrictive early in 1987 as the trade-weighted value of the dollar falls below 100 on its 1973 index and as inflation begins to spurt. The numerical implications of these assumptions are presented in table six.

Some other assumptions are as follows:

A. Social Security taxes are expected to remain at 7.15 percent on a wage base of $44,000 in 1987. The wage base is expected to rise to $46,500 in 1988 while the tax base is scheduled by current law to rise to 7.51 percent in that year. Despite a CPI growth that would deny a cost-of-living adjustment to Social Security receipents, those receipents where assumed to received 3% in 1987 and 4% in the first quarter of 1988. However, other index provisions in the federal budget were assumed to be ineffective in 1987 before rising by four percent in 1988.

B. No changes were assumed in any excise taxes or oil import fees. The recent increases in postal rates for second class mail were assumed to be the only increases over the forecast period. Loan support payments for crops were assumed to be adjusted downward by the maximum amount permitted by law at the end of the 1986 crop season. No further significant changes in supports were anticipated.

C. World trade is expected to slow to only a three percent gorwth in 1986 before rebounding slightly to four percent gains in 1987 and 1988. At the present time no significant changes in trade flows were anticipated as a result of the industrial accident at Chernobyl.

D. Any strike activity that may influence the steel industry was not expected to be sufficient to alter forecasted results. No other significant strike activity was assumed in the forecast.

Conclusions

Oil prices have fallen farther and faster than anticipated, leading to more significant declines in inflation and interest rates than had been expected. However, some of this rapid oil price decline will be reversed in the second half of this year. Therefore, the especially favorable economic conditions stimulating fixed investment and housing activity will gradually recede.

Construction activity will trend downward late in 1986 and continue to fall through 1987. As economic activity begins weakening in 1987, fixed investment also will begin to flatten. Already, orders for automobile products, especially trucks, are declining.

When inflation reappears, some inventory rebuilding is anticipated. Unfortunately, this inventory rebuilding will coincide with a rebound in consumer spending as many households discover that falling oil prices have increased their purchasing power. The result will be rising interest rates late in 1986 and early 1987. Also, a return to upward pressures on industrial prices may generate some increased inventory rebuilding. This could lead to a short period of vigorous activity followed by inventory excesses requiring some liquidations.

As a result of these prospects we do not hold the growing concensus that 1987 will be a stronger year than 1986. - In fact, consumers will begin feeling their overextended position in 1987 while construction will be contracting. Although net exports will improve, mitigating any significant falloff in activity, a modest recession certainly is a possibility in the second half of 1987. Before that time, however, economic activity should spurt and lead the stock market to the vicinity of 2000 by the summer of 1986.

Table 1.

Georgia State University
College of Business Administration
Economic Forecasting Center
May 1986

U.S. Expenditures for 1985-IV and 1986-I with Forecasts for 1986-II through 1988-I

		1985	1986				1987				1988	Percent Change			Annual		
		IV	I	II	III	IV	I	II	III	IV	I	84-85	85-86	86-87	1985	1986	1987
1.	Personal Consumption Expenditures	2634.0	2670.6	2695.1	2736.7	2784.0	2830.1	2879.6	2915.6	2958.6	3007.0	6.6	5.4	6.4	2582.1	2721.6	2896.0
2.	Autos and Parts	162.2	162.8	164.9	169.5	172.3	173.9	177.1	170.4	167.9	171.9	9.2	-0.6	3.0	168.4	167.4	172.3
3.	Other Durable Goods	199.8	199.6	200.4	202.4	205.9	207.5	209.9	210.8	212.5	212.7	8.9	4.7	4.0	193.1	202.1	210.2
4.	Nondurable Goods	928.3	939.2	933.9	943.8	958.9	973.9	989.6	1003.1	1019.7	1033.6	4.6	3.5	5.6	912.2	944.0	996.6
5.	Services	1344.6	1369.1	1395.9	1421.0	1446.9	1474.8	1503.0	1531.3	1558.5	1588.8	7.3	7.6	7.7	1308.7	1408.2	1516.9
6.	Gross Private Domestic Investment	680.7	708.0	718.9	738.4	742.0	753.0	748.6	767.9	730.2	726.0	-0.8	8.6	3.2	669.3	726.8	749.9
7.	Residential Struct.	192.5	198.7	206.9	211.6	213.3	211.0	204.6	201.9	200.6	202.0	3.6	11.9	-1.5	185.6	207.6	204.5
8.	Other Structures	174.5	174.2	177.2	177.7	178.7	179.2	179.3	177.6	176.6	175.7	15.4	4.0	0.7	170.2	177.0	178.2
9.	Producers' Durables	318.0	305.4	314.0	317.4	325.2	328.3	331.8	334.3	335.7	337.7	9.0	3.1	5.4	306.0	315.5	332.5
10.	Change in Inventories	-4.3	29.7	20.8	31.7	24.8	34.5	32.9	54.1	17.3	10.6	---	---	---	7.5	26.8	34.7
11.	Net Export of Goods and Services	-113.4	-95.1	-86.6	-81.6	-82.2	-79.2	-76.1	-69.2	-65.4	-65.2	---	---	---	-78.5	-86.4	-72.5
12.	Exports	367.8	378.4	372.2	383.0	392.5	402.8	411.7	421.3	432.1	437.1	-3.8	3.1	9.3	370.0	381.5	417.0
13.	Imports	481.2	473.6	458.8	464.6	474.7	482.0	487.8	490.5	497.5	502.3	0.7	4.4	4.6	448.4	467.9	489.5
14.	Government Purchases of Goods and Services	857.2	833.1	834.5	847.4	871.2	880.8	887.6	897.5	916.9	930.5	10.6	3.8	5.8	815.4	846.6	895.7
15.	Federal	384.7	354.3	351.8	358.4	374.8	377.7	378.5	382.0	393.9	399.9	13.4	1.2	6.4	355.4	359.8	383.0
16.	National Defense	272.1	266.6	268.3	273.9	278.9	287.2	290.6	295.6	300.0	308.1	10.6	3.8	7.9	261.9	271.9	293.4
17.	Other	112.6	87.7	83.5	84.5	95.9	90.5	87.9	86.4	93.9	91.8	22.4	-6.0	2.0	93.6	87.9	89.7
18.	State and Local	472.5	478.8	482.7	489.0	496.4	503.1	509.1	515.5	523.0	530.6	8.6	5.8	5.3	460.0	486.7	512.7
19.	Gross National Product	4059.3	4116.7	4161.9	4240.9	4315.0	4384.7	4439.7	4511.8	4540.3	4598.3	5.7	5.5	6.2	3988.6	4208.6	4469.1
20.	Amount of Change	42.4	57.4	45.2	79.0	74.1	69.7	55.0	72.1	28.5	58.0	---	---	---	213.9	220.0	260.5
21.	% Change*	4.3	5.8	4.5	7.8	7.2	6.6	5.1	6.7	2.6	5.2	---	---	---	5.7	5.5	6.2
22.	% Real Change*	0.7	3.2	3.8	4.9	3.3	2.0	0.9	2.6	-1.9	0.5	---	---	---	2.2	2.9	2.3
23.	% Price Change*	3.3	2.5	0.8	2.9	3.8	4.5	4.1	3.9	4.6	4.6	---	---	---	3.3	2.5	3.8
24.	Implicit Price Deflator	113.0	113.7	113.9	114.7	115.8	117.1	118.3	119.4	120.8	122.2	3.3	2.5	3.8	111.7	114.5	118.9
25.	Change in Final Sales	46.9	23.3	54.2	68.1	81.0	60.0	56.6	50.9	65.3	64.7	---	---	---	---	---	---
26.	GNP in 1982 Dollars	3590.8	3619.2	3653.1	3696.9	3726.8	3745.2	3753.6	3777.4	3759.8	3764.4	2.2	2.9	2.3	3570.0	3674.0	3759.0

Table 2.

Georgia State University
College of Business Administration
Economic Forecasting Center
May 1986

U.S. Real Expenditures for 1985-IV and 1986-I with Forecasts for 1986-II through 1988-I

	1985	1986				1987				1988	Percent Change			Annual		
	IV	I	II	III	IV	I	II	III	IV	I	84-85	85-86	86-87	1985	1986	1987
1. Personal Consumption	2330.4	2354.8	2378.4	2395.8	2412.0	2424.9	2439.8	2442.9	2450.7	2462.6	3.3	3.1	2.3	2313.0	2385.3	2439.6
2. Durable Goods	346.7	345.4	346.8	351.7	355.1	355.3	357.7	350.7	347.5	349.8	8.3	1.3	0.9	345.4	349.8	352.8
3. Nondurable Goods	851.1	867.1	880.1	886.0	890.8	895.7	901.0	904.5	909.3	912.1	2.3	4.0	2.5	846.9	881.0	902.6
4. Services	1132.6	1142.2	1151.5	1158.1	1166.1	1173.9	1181.1	1187.7	1193.9	1200.7	2.5	3.0	2.6	1120.8	1154.5	1184.2
5. Gross Private Domestic Invest.	655.7	674.8	680.1	693.3	692.2	695.9	686.6	697.7	659.3	651.4	-1.9	5.6	0.0	649.0	685.1	684.9
6. Residential Structures	175.5	179.6	185.4	187.6	187.3	183.3	176.1	172.1	169.6	169.2	1.8	8.0	-5.2	171.2	185.0	175.3
7. Other Structures	168.7	166.5	167.8	166.9	166.2	165.3	164.0	161.3	159.2	157.3	11.6	0.7	-2.6	165.8	166.9	162.5
8. Producers' Durables	317.8	302.6	309.7	311.2	317.0	317.8	319.0	319.0	318.2	317.7	8.6	1.2	2.7	306.3	310.1	318.5
9. Change in Inventories	-6.3	26.0	17.2	27.6	21.7	29.5	27.5	45.3	12.3	7.2	---	---	---	5.7	23.1	28.7
10. Net Export of Goods and Services	-140.8	-126.0	-119.5	-111.8	-110.3	-104.6	-100.4	-91.8	-87.0	-85.5	---	---	---	-108.4	-116.9	-96.0
11. Exports	359.2	369.4	364.5	373.7	381.1	387.7	392.8	398.3	404.6	405.5	-2.9	3.4	6.4	359.9	372.2	395.9
12. Imports	500.0	495.4	484.0	485.5	491.4	492.3	493.2	490.0	491.6	491.0	8.3	4.4	0.6	468.3	489.1	491.8
13. Gov't Purchases of Goods & Services	745.5	715.6	714.1	719.6	732.9	729.0	727.6	728.6	736.8	735.9	5.9	0.6	1.4	716.4	720.6	730.5
14. Federal	349.0	316.7	314.3	318.7	330.4	326.5	324.7	325.1	332.4	330.7	10.1	-0.8	2.2	322.6	320.0	327.2
15. State & Local	396.5	398.9	399.8	400.9	402.5	402.5	402.9	403.5	404.4	405.2	2.8	1.7	0.7	393.8	400.5	403.3
16. Gross National Product	3590.8	3619.2	3653.1	3696.9	3726.8	3745.2	3753.6	3777.4	3759.8	3764.4	2.2	2.9	2.3	3570.0	3674.0	3759.0
17. Final Demand	3597.1	3593.2	3635.9	3669.3	3705.1	3715.7	3726.1	3732.1	3747.5	3757.2	4.0	2.4	2.2	3564.3	3650.9	3730.4
18. Private Domestic Product	3202.6	3232.5	3267.5	3308.6	3335.9	3352.2	3358.2	3382.6	3360.2	3363.0	2.7	3.3	2.3	3182.2	3286.1	3363.3

Table 3.

Georgia State University
College of Business Administration
Economic Forecasting Center
May 1986

Income Related U.S. GNP Components for 1985-IV and 1986-I with Forecasts for 1986-II through 1988-I

		1985	1986				1987				1988	Percent Change			Annual		
		IV	I	II	III	IV	I	II	III	IV	I	84-85	85-86	86-87	1985	1986	1987
1.	Compensation of Employees	2427.5	2462.4	2495.6	2531.4	2571.3	2613.8	2650.1	2685.4	2717.5	2768.3	6.8	6.0	6.0	2372.5	2515.2	2666.7
2.	Wage and Salary	2005.8	2034.8	2062.1	2091.9	2125.0	2158.0	2187.9	2217.1	2243.0	2277.2	6.8	6.0	5.9	1960.3	2078.5	2201.5
3.	Manufacturing	464.7	466.0	469.2	474.1	479.8	484.6	489.5	493.0	496.4	501.4	4.2	3.2	3.9	457.6	472.3	490.9
4.	Other Commodity-Producing Industries	152.2	154.6	152.9	152.2	152.9	152.8	151.9	150.8	150.3	150.6	7.7	2.3	-1.1	149.8	153.2	151.5
5.	Distributive Industries	476.8	482.8	489.4	498.2	506.7	514.7	522.4	529.9	536.5	543.6	6.1	5.4	6.4	468.8	494.3	525.9
6.	Service Industries	532.4	546.6	560.9	573.3	587.1	598.9	612.6	627.4	639.0	651.2	9.5	10.4	9.3	513.6	567.0	619.5
7.	Military	69.1	69.4	69.5	69.5	70.2	72.7	73.6	73.9	74.3	77.3	5.9	3.6	5.7	67.3	69.7	73.6
8.	Civilian Government	310.6	315.5	320.2	324.6	328.3	334.3	337.9	342.1	346.5	353.1	7.2	6.2	5.6	303.3	322.2	340.2
9.	Supplements	421.7	427.6	433.5	439.5	446.3	455.8	462.2	468.3	474.5	491.1	6.7	5.9	6.5	412.2	436.7	465.2
10.	Proprietors' Income	250.9	252.4	255.1	265.5	279.5	285.7	284.0	286.7	289.0	284.2	3.7	8.7	8.8	242.2	263.1	286.4
11.	Business & Professional	227.6	236.4	243.3	249.5	256.7	261.3	263.2	264.9	262.9	260.5	9.6	11.5	6.7	221.0	246.5	263.1
12.	Farm	23.3	16.0	11.8	16.0	22.8	24.4	20.8	22.3	26.1	23.7	-33.5	-21.5	40.5	21.2	16.7	23.4
13.	Rental Income	15.9	17.8	18.2	18.5	18.8	19.0	19.1	19.4	19.2	19.0	29.6	32.8	4.6	13.8	18.3	19.2
14.	Net Interest	272.6	268.9	262.4	266.2	274.6	281.7	288.1	296.9	300.3	299.8	-4.4	-6.7	8.9	287.4	268.0	291.8
15.	Corporate Profits Adj.	303.1	310.7	319.8	334.6	341.7	341.0	338.4	338.9	327.9	321.8	9.7	10.6	3.0	295.5	326.7	336.6
16.	National Income	3269.9	3312.2	3351.1	3416.2	3485.9	3541.2	3579.7	3627.3	3653.9	3693.1	5.8	5.6	6.2	3211.4	3391.4	3600.5
17.	Indirect Business Tax	332.7	340.9	339.7	340.7	346.0	351.1	356.7	359.8	365.4	371.9	5.7	4.1	4.8	328.4	341.8	358.3
18.	Capital Consumption Adj.	-50.5	-53.5	-56.0	-57.8	-58.8	-59.1	-58.2	-56.8	-56.4	-54.6	---	---	---	-40.5	-56.5	-57.6
19.	Capital Consumption Alw.	498.5	504.1	513.7	522.9	531.7	541.4	550.6	560.3	570.4	579.9	14.3	8.2	7.3	478.9	518.1	555.7
20.	Business Transfers	20.1	20.6	21.1	21.6	22.1	22.6	23.2	23.8	24.4	25.0	11.7	10.3	10.1	19.4	21.4	23.5
21.	Net Govt. Subsidies	-13.5	-9.3	-7.8	-9.0	-15.3	-11.6	-8.0	-8.7	-13.4	-10.0	-5.9	8.7	0.7	-9.5	-10.4	-10.4
22.	Statistical Discrepancy	2.1	1.7	0.1	6.3	3.4	-0.9	-4.3	6.1	-4.0	-7.0	---	---	---	0.6	2.9	-0.8
23.	Gross National Product	4059.3	4116.7	4161.9	4240.9	4315.0	4384.7	4439.7	4511.8	4540.3	4598.3	5.7	5.5	6.2	3988.6	4208.6	4469.1

Table 4.

Georgia State University
College of Business Administration
Economic Forecasting Center
May 1986

Derivation of U.S. Personal Income for 1985-IV and 1986-I with Forecasts for 1986-II through 1988-I

	1985	1986				1987				1988	Percent Change			Annual		
	IV	I	II	III	IV	I	II	III	IV	I	84-85	85-86	86-87	1985	1986	1987
1. National Income	3269.9	3312.2	3351.1	3416.2	3485.9	3541.2	3579.7	3627.3	3653.9	3693.1	5.8	5.6	6.2	3211.4	3391.4	3600.5
2. Less: Corp. Profits Adj.	303.1	310.7	319.8	334.6	341.7	341.0	338.4	338.9	327.9	321.8	9.7	10.6	3.0	295.5	326.7	336.6
3. Social Insurance	362.2	370.7	375.4	380.4	386.2	396.6	401.7	406.4	410.9	434.4	9.1	6.6	6.8	354.9	378.2	403.9
4. Plus: Gov't Transfers	471.1	481.6	484.1	488.0	489.2	495.7	498.5	502.9	507.0	517.9	6.3	4.4	3.1	465.2	485.7	501.0
5. Old Age, Survivors, etc.	257.1	264.4	265.8	269.6	270.8	274.7	276.2	279.3	280.8	286.8	7.5	5.6	3.8	253.4	267.7	277.8
6. Unemployment Benefits	14.8	15.3	15.4	14.7	14.1	13.5	13.1	13.2	13.7	14.0	-2.2	-4.0	-10.1	15.5	14.9	13.4
7. Veterans' Benefits	16.5	16.9	16.9	16.6	16.4	16.6	16.7	16.4	16.2	16.7	2.1	-0.4	-1.3	16.8	16.7	16.5
8. Employees' Retirement	68.0	69.1	70.1	71.0	72.1	74.3	75.4	76.5	77.7	80.6	9.6	5.9	7.7	66.6	70.6	76.0
9. A.F.D.C.	15.7	15.8	15.9	16.0	16.0	16.1	16.2	16.2	16.4	16.8	3.4	3.4	1.9	15.4	15.9	16.2
10. Other	98.9	100.1	100.0	100.1	99.8	100.5	100.9	101.3	102.2	103.0	4.0	2.6	1.2	97.5	100.0	101.2
11. Business Transfers	20.1	20.6	21.1	21.6	22.1	22.6	23.2	23.8	24.4	25.0	11.7	10.3	10.1	19.4	21.4	23.5
12. Interest Transfers	178.8	182.7	185.6	185.5	189.6	192.7	196.7	202.3	207.2	212.2	13.3	10.1	7.5	168.9	185.9	199.7
13. Personal Dividends	79.8	82.1	84.4	86.6	88.4	90.1	91.5	92.9	94.2	95.5	5.7	8.2	8.0	78.9	85.4	92.2
14. Equals: Personal Income	3354.3	3397.9	3431.1	3482.9	3547.2	3604.7	3649.6	3703.9	3747.9	3787.5	5.8	5.2	6.1	3293.5	3464.8	3676.5
15. Less: Personal Tax Payments	508.5	503.8	508.1	519.9	534.8	539.1	550.9	562.9	571.9	574.1	11.5	4.9	7.7	492.7	516.7	556.2
16. Equals: Disposable Personal Income	2845.9	2894.1	2923.0	2963.0	3012.4	3065.6	3098.7	3141.0	3176.0	3213.4	4.9	5.3	5.8	2800.8	2948.1	3120.3
17. Less: Consumption	2634.8	2670.6	2695.1	2736.7	2784.0	2830.1	2879.6	2915.6	2958.6	3007.0	6.6	5.4	6.4	2582.1	2721.6	2896.0
18. Less: Other Outlays	95.8	99.0	101.6	104.5	107.5	110.3	113.7	117.1	120.5	123.3	19.8	15.3	11.9	89.5	103.2	115.4
19. Equals: Personal Savings	115.2	124.4	126.3	121.8	120.9	125.2	105.4	108.3	96.9	83.1	-25.1	-4.4	-11.7	129.0	123.4	109.0
20. Savings Rate (%)	4.0	4.3	4.3	4.1	4.0	4.1	3.4	3.5	3.1	2.6	-28.3	-9.2	-15.6	4.6	4.2	3.5

Table 5.

Georgia State University
College of Business Administration
Economic Forecasting Center
May 1986

U.S. Federal Government Activity for 1985-IV and 1986-I with Forecasts for 1986-II through 1988-I

	1985	1986				1987				1988	Percent Change			Annual		
	IV	I	II	III	IV	I	II	III	IV	I	84-85	85-86	86-87	1985	1986	1987
1. Government Receipts	803.5	805.1	811.3	831.0	850.0	861.4	873.2	886.5	894.2	915.7	8.5	5.1	6.6	784.7	824.6	878.8
2. Personal Tax & Non-Tax	362.1	355.9	359.5	368.4	379.4	380.8	389.9	398.8	405.1	404.9	12.6	4.3	7.6	350.7	365.8	393.7
3. Corporate Profits Tax	68.5	64.0	65.6	75.5	78.7	77.9	76.3	77.5	74.4	72.0	-7.8	5.8	7.9	67.1	71.0	76.5
4. Indirect Business Tax	56.9	61.8	58.9	55.8	56.5	57.1	57.5	56.8	57.7	59.2	2.1	2.2	-1.7	57.0	58.3	57.3
5. Contributions for Social Security	315.9	323.4	327.3	331.3	336.2	345.6	349.5	353.4	357.0	379.6	9.3	6.3	6.6	309.9	329.6	351.4
6. Government Expenditures	1030.4	1008.6	1004.9	1012.0	1035.3	1036.1	1037.8	1049.6	1072.4	1083.0	9.6	3.1	3.3	984.7	1015.2	1049.0
7. Purchases of Goods and Services	384.7	354.3	351.8	358.4	374.8	377.7	378.5	382.0	393.9	399.9	13.4	1.2	6.4	355.4	359.8	383.0
8. Defense	272.1	266.6	268.3	273.9	278.9	287.2	290.6	295.6	300.0	308.1	10.6	3.8	7.9	261.9	271.9	293.4
9. Durables	79.2	76.9	79.0	82.9	85.4	87.8	89.1	91.4	93.0	94.7	13.2	4.4	11.4	77.6	81.1	90.3
10. Nondurables	11.7	11.6	9.9	9.8	10.2	10.4	10.4	10.5	10.7	10.9	1.5	-14.3	1.2	12.1	10.4	10.5
11. Military Compensation	69.1	69.4	69.5	69.5	70.2	72.7	73.6	73.9	74.3	77.3	5.9	3.6	5.7	67.3	69.7	73.6
12. Civilian Compensation	33.5	33.7	33.9	34.0	34.2	35.3	35.4	35.6	35.9	37.3	5.8	2.4	4.7	33.2	34.0	35.6
13. Other Services	72.6	69.0	70.1	71.7	72.8	74.9	76.1	78.0	79.8	81.4	16.6	7.3	8.9	66.1	70.9	77.2
14. Structures	5.9	5.9	5.9	6.0	6.1	6.1	6.0	6.2	6.3	6.5	15.9	4.4	2.9	5.7	6.0	6.2
15. Nondefense	112.6	87.7	83.5	84.5	95.9	90.5	87.9	86.4	93.9	91.8	22.4	-6.0	2.0	93.6	87.9	89.7
16. Durables	4.2	4.2	4.0	4.0	4.1	4.2	4.3	4.3	4.3	4.4	1.9	0.6	4.9	4.1	4.1	4.3
Nondurables																
17. CCC Inventory Change	30.1	6.3	3.7	4.8	14.6	7.2	4.6	2.5	8.9	5.3	---	---	---	11.7	7.4	5.8
18. Other Nondurables	4.6	4.4	3.3	3.4	3.6	3.7	3.7	3.8	4.0	4.0	-7.2	-36.9	3.4	5.8	3.7	3.8
19. Compensation	39.9	40.1	40.3	40.5	40.7	42.0	42.2	42.4	42.9	44.4	5.7	2.5	4.9	39.4	40.4	42.4
20. Other Services	26.3	25.0	24.4	24.2	24.9	25.4	25.2	25.4	25.7	25.5	-0.1	-1.2	3.2	24.9	24.6	25.4
21. Structures	7.6	7.8	7.8	7.6	8.0	8.0	7.9	8.0	8.1	8.2	9.8	1.6	2.6	7.7	7.8	8.0
22. Transfer Payments	384.8	388.4	390.7	395.5	397.5	398.0	400.2	403.9	410.3	414.9	5.0	3.3	2.6	380.4	393.0	403.1
23. Grants-in-Aid to State and Local Governments	102.0	109.6	107.7	105.6	102.5	102.1	102.3	103.0	100.6	101.4	6.4	5.9	-4.1	100.4	106.4	102.0
24. Net Interest Paid	133.1	134.7	134.5	131.0	132.6	133.9	136.0	139.1	141.2	143.6	11.9	3.1	3.3	129.2	133.2	137.6
25. Deficit of Government Enterprises	25.9	21.5	20.2	21.5	27.9	24.4	20.8	21.5	26.4	23.2	1.2	7.7	2.3	21.2	22.8	23.3
26. Federal Surplus	-226.9	-203.5	-193.6	-181.0	-184.5	-174.7	-164.6	-163.1	-178.2	-167.3	---	---	---	-200.0	-190.7	-170.2
27. Federal Debt Held by Individuals	1419.5	1464.7	1497.0	1541.5	1576.1	1619.7	1646.1	1687.2	1722.3	1763.1	14.9	14.6	9.8	1326.0	1519.8	1668.8
28. Total Government Surplus	-168.1	-140.2	-133.5	-119.2	-123.9	-113.7	-102.0	-99.1	-118.2	-107.5	---	---	---	-140.9	-129.2	-108.3

Table 6.

Georgia State University
College of Business Administration
Economic Forecasting Center
May 1986

Selected Economic Variables of the U.S. Economy for 1985-IV and 1986-I with Forecasts for 1986-II through 1988-I

	1985	1986				1987				1988	Percent Change			Annual		
	IV	I	II	III	IV	I	II	III	IV	I	84-85	85-86	86-87	1985	1986	1987
Private Economy																
1. Change in Private Hourly Wage Costs	3.4	1.7	2.9	3.4	3.9	4.5	3.9	4.1	4.4	6.1	3.4	2.9	4.0	12.97	13.34	13.88
2. Change in Output Per Worker Hour	-2.1	-1.1	1.7	2.5	0.5	0.2	-1.2	1.3	-3.1	-0.6	-0.4	0.1	0.3	21.14	21.17	21.23
3. Change in Implicit Unit Labor Costs	5.8	2.6	1.3	0.6	3.9	3.8	5.1	3.1	7.5	6.8	3.9	2.8	3.6	0.614	0.631	0.654
4. Change in Private Price Deflator	3.1	2.2	0.1	2.9	3.9	3.9	4.2	3.8	4.8	4.4	3.0	2.2	3.6	1.109	1.134	1.175
Prices																
5. Consumer Price Index	326.2	327.5	326.0	328.8	331.9	335.9	339.6	343.8	347.6	351.9	3.5	2.0	4.0	322.1	328.5	341.7
6. Industrial Commod. (Producer Price Index)	324.9	319.1	310.9	313.2	316.1	317.8	320.3	323.4	326.8	329.0	0.4	-2.8	2.3	324.0	314.8	322.1
Corporate Economy																
7. After Tax Profit	146.7	133.6	135.5	154.5	159.9	162.4	162.4	162.0	156.2	154.2	-2.5	4.0	10.2	140.2	145.9	160.8
8. Inventory Profits	-10.7	14.2	16.7	-2.8	-6.8	-10.3	-10.7	-10.5	-11.8	-12.0	---	---	---	-0.6	5.3	-10.8
9. Genuine Profits	216.0	229.5	236.4	238.2	241.2	241.3	240.8	240.1	233.3	230.3	10.8	12.3	1.1	210.5	236.3	238.9
10. Mean Closing Dow Jones	1433.3	1669.8	1863.4	1884.3	1752.5	1729.5	1694.5	1643.1	1693.5	1759.6	12.7	35.0	-5.7	1328.1	1792.5	1690.2
11. Mean Closing NY Composite	113.57	128.10	143.16	143.78	132.65	130.84	128.19	125.32	128.65	132.65	16.9	26.7	-6.3	108.1	136.9	128.3
Financial																
12. Monetary Base	233.0	237.6	241.2	245.7	250.1	253.7	257.4	261.7	265.3	269.3	7.3	7.4	6.5	226.8	243.6	259.5
13. Checkable Deposits	450.4	459.2	470.3	480.1	484.9	492.9	496.3	505.3	504.1	509.9	9.8	10.4	5.5	428.8	473.6	499.7
14. M1	620.1	632.1	645.3	658.0	666.0	676.9	683.4	695.1	696.7	705.6	9.0	9.5	5.8	593.9	650.3	688.0
15. Velocity of M1	6.481	6.452	6.390	6.384	6.416	6.413	6.428	6.422	6.444	6.443	-2.6	-3.6	0.3	6.652	6.410	6.427
16. M2	2550.5	2578.2	2622.3	2675.1	2720.1	2767.2	2809.2	2868.3	2892.7	2939.3	9.1	6.6	7.0	2484.0	2648.9	2834.4
17. Velocity of M2	1.576	1.582	1.575	1.570	1.571	1.569	1.564	1.562	1.552	1.547	-2.8	-0.9	-0.8	1.589	1.574	1.562
18. Federal Funds	8.10	7.83	7.04	6.88	7.32	7.46	7.21	7.53	7.25	6.71	-20.8	-10.3	1.3	8.10	7.27	7.36
19. Prime Rate	9.50	9.38	8.56	8.50	8.89	9.00	9.00	9.00	9.00	8.63	-17.5	-11.1	1.9	9.93	8.83	9.00
20. 6 Month T-Bills	7.26	6.95	6.22	6.35	6.68	6.82	6.59	6.68	6.39	5.98	-22.1	-14.2	1.1	7.64	6.55	6.62
21. Seasoned AAA Corp.	10.58	9.58	8.76	9.04	9.33	9.39	9.28	9.43	9.11	8.86	-10.5	-19.3	1.4	11.37	9.18	9.30
22. FHA Mortgage Rates	11.73	10.56	9.83	9.87	10.26	10.35	10.16	10.40	10.02	9.63	-9.9	-18.6	1.0	12.45	10.13	10.23
Miscellaneous																
23. Housing Starts	1716	1993	1952	1915	1868	1726	1694	1648	1646	1608	-1.7	11.3	-13.1	1736	1932	1679
24. Single Family Starts	1072	1250	1249	1273	1251	1153	1126	1102	1109	1092	-2.5	16.8	-10.6	1075	1256	1123
25. Unit Auto Sales	10.30	10.60	10.50	10.70	10.70	10.60	10.70	9.92	9.54	9.86	7.0	-4.5	-4.1	11.13	10.63	10.19
26. Civilian Employment	107.996	108.768	109.267	109.975	110.767	111.358	111.918	112.390	112.700	113.065	2.1	2.4	2.2	107.170	109.694	112.092
27. Unemployment Rate	7.0	7.1	7.0	6.8	6.6	6.5	6.3	6.3	6.4	6.5	-4.2	-4.5	-7.2	7.2	6.9	6.4
28. Industrial Production	125.2	125.8	125.9	127.8	128.8	129.1	128.5	128.9	126.7	126.3	2.2	2.1	1.0	124.5	127.1	128.3
29. Asset-Consumption Ratio	3.274	3.414	3.609	3.581	3.444	3.406	3.363	3.318	3.351	3.380	2.2	9.5	-4.3	3.208	3.512	3.360

Table 7.

Georgia State University
College of Business Administration
Economic Forecasting Center
May 1986

U. S. Foreign Trade Accounts for 1985 with Forecasts for 1986 and 1987

	1985	1986	1987	Percent Change 84-85	85-86	86-87
Exports of U.S. Merchandise	212796	213131	234806	-2.3	0.2	10.2
Food & Live Animals	19268	18466	20855	-21.2	-4.2	12.9
Beverages & Tobacco	2958	2594	2639	3.9	-12.3	1.7
Crude Materials	16939	18410	20794	-16.3	8.7	12.9
Mineral Fuels	9971	8074	8143	7.1	-19.0	0.8
Animal & Vegetable Oils	1434	1267	1415	-25.4	-11.6	11.7
Chemicals	21759	22230	24123	-2.6	2.2	8.5
Manufactured Goods	14009	13980	15035	-7.5	-0.2	7.5
Machinery, Trans. Equipment	93939	94456	103945	4.4	0.6	10.0
Miscellaneous Manufacturing	15338	16072	17790	-2.3	4.8	10.7
Commodities, n.e.c.	10960	11537	13088	8.5	5.3	13.4
Imports of Merchandise	361626	366462	373099	6.2	1.3	1.8
Food & Live Animals	20292	22402	23303	4.5	10.4	4.0
Beverages & Tobacco	4124	4002	4129	2.9	-3.0	3.2
Crude Materials	11167	11168	12385	-6.0	0.0	10.9
Mineral Fuels	55843	38495	36031	-13.4	-31.1	-6.4
Animal & Vegetable Oils	730	707	760	-1.6	-3.2	7.5
Chemicals	15321	16333	17055	6.4	6.6	4.4
Manufactured Goods	49500	50254	50988	-1.1	1.5	1.5
Machinery, Trans. Equipment	141721	155862	159688	15.1	10.0	2.5
Miscellaneous Manufacturing	51684	54689	55753	13.9	5.8	1.9
Commodities, n.e.c.	11245	12549	13010	13.2	11.6	3.7
Foreign Transactions						
Total Exports	379.2	381.5	417.0	-3.7	0.6	9.3
Merchandise Exports	217.2	223.4	240.3	-2.2	2.9	7.6
Factor Income	92.2	96.1	111.8	-10.4	4.3	16.3
Other Services	59.3	62.0	64.9	2.1	4.7	4.6
Total Imports	446.1	467.9	489.5	0.2	4.9	4.6
Merchandise Imports	340.9	352.2	363.1	0.3	3.3	3.1
Factor Income	49.2	56.4	64.5	-6.2	14.5	14.4
Other Services	56.0	59.4	61.9	6.0	6.0	4.3
Transfer	14.6	15.1	15.5	27.0	3.4	2.8
Government Interest	20.7	21.5	23.6	7.8	4.1	9.5
Net Foreign Investment	-112.5	-123.0	-111.6	---	---	---
Trade Weighted Value of Dollar (3/73=100)	143.3	109.8	99.7	3.7	-23.4	-9.2

Table 8. Economic Forecasting Center May 1986

Implicit Price Deflators for Personal Consumption Expenditures for 1985-IV and 1986-I with Forecasts for 1986-II through 1988-I

	1985	1986				1987				1988	Percent Change			Annual		
	IV	I	II	III	IV	I	II	III	IV	I	84-85	85-86	86-87	1985	1986	1987
Durable Goods	104.4	104.9	105.3	105.7	106.4	107.3	108.2	108.7	109.5	109.9	0.9	0.9	2.7	104.7	105.6	108.4
% Change	2.3	1.9	1.5	1.5	2.7	3.4	3.4	1.9	3.0	1.5						
Automobiles	108.3	109.2	110.0	110.3	111.3	112.4	113.4	113.8	114.7	114.9	2.0	1.9	3.1	108.1	110.2	113.6
% Change	2.4	3.3	3.0	1.0	3.8	4.0	3.5	1.6	3.0	0.8						
Furniture	99.3	99.5	99.3	99.6	100.1	100.6	101.1	101.5	102.2	102.6	-0.9	-0.3	1.7	99.9	99.6	101.3
% Change	3.1	0.9	-0.6	1.2	1.8	2.0	2.0	1.7	2.6	1.8						
Other Durables	105.8	106.5	107.1	107.9	108.7	109.7	111.0	112.2	113.3	114.2	1.4	1.7	3.7	105.7	107.6	111.6
% Change	3.1	2.8	2.4	2.9	3.2	3.7	4.5	4.7	4.0	3.1						
Nondurables	109.1	108.3	106.1	106.5	107.6	108.7	109.8	110.9	112.1	113.3	2.3	-0.6	3.0	107.7	107.1	110.4
% Change	6.9	-2.9	-7.9	1.5	4.2	4.2	4.1	4.1	4.4	4.4						
Food	110.2	110.6	110.4	110.5	111.6	113.1	114.0	115.0	116.3	117.6	1.9	1.9	3.5	108.7	110.8	114.6
% Change	8.4	1.5	-0.7	0.3	4.1	5.5	3.2	3.5	4.6	4.6						
Apparel	107.7	105.8	105.6	106.4	107.4	108.1	109.0	110.0	111.1	111.8	3.0	0.0	3.1	106.3	106.3	109.6
% Change	6.6	-6.7	-0.9	3.0	3.9	2.7	3.3	3.7	4.0	2.5						
Gasoline & Oil	96.6	90.0	73.0	74.2	74.7	74.5	75.9	76.9	77.4	77.9	0.9	-18.9	-2.3	96.1	78.0	76.2
% Change	-1.0	-24.5	-56.8	6.7	3.1	-1.4	8.1	5.6	2.3	2.6						
Fuel Oil	95.4	89.0	74.7	70.9	73.6	72.4	74.3	74.4	76.4	76.9	-3.7	-16.9	-3.4	92.7	77.0	74.4
% Change	21.8	-24.4	-50.3	-19.1	16.2	-6.1	10.6	0.8	11.3	2.3						
Other Nondurables	116.7	118.1	118.9	119.9	121.1	122.4	123.8	125.2	126.7	128.3	4.1	3.6	4.2	115.4	119.5	124.5
% Change	6.1	4.8	2.9	3.4	4.1	4.5	4.6	4.6	4.8	5.2						
Services	118.7	119.9	121.0	122.7	124.1	125.6	127.3	128.9	130.6	132.3	4.8	4.4	5.1	116.8	121.9	128.1
% Change	5.8	3.9	3.7	5.9	4.6	5.1	5.3	5.4	5.2	5.5						
Housing	121.5	122.9	124.6	126.3	128.1	129.9	131.7	133.5	135.4	137.5	6.2	5.9	5.7	118.5	125.5	132.6
% Change	6.6	4.5	5.8	5.6	5.8	5.8	5.7	5.5	5.8	6.4						
Electricity & Gas	113.7	115.3	114.9	115.5	113.9	114.9	115.5	116.8	115.8	116.1	2.0	0.2	0.7	114.7	114.9	115.7
% Change	-6.3	5.7	-1.4	2.1	-5.5	3.8	2.0	4.4	-3.3	1.3						
Household Operations	118.7	119.2	120.2	121.2	122.4	123.2	124.3	125.5	126.8	128.1	4.2	3.6	3.4	116.6	120.8	124.9
% Change	3.9	1.8	3.4	3.2	4.1	2.5	3.6	4.0	4.2	4.3						
Transportation	115.6	117.2	118.0	119.2	120.6	122.4	124.3	126.1	128.0	129.9	3.1	5.0	5.4	113.0	118.7	125.2
% Change	9.4	5.6	2.7	4.2	5.0	5.9	6.3	6.2	6.2	5.9						
Medical Care	122.2	123.8	125.8	128.1	130.3	132.7	135.2	137.6	140.0	142.4	5.9	6.1	7.4	119.8	127.0	136.4
% Change	7.2	5.3	6.6	7.5	7.0	7.6	7.8	7.3	7.2	7.0						
Other Services	115.6	116.2	116.9	117.9	119.0	119.9	121.0	122.2	123.5	124.9	3.6	2.8	3.5	114.3	117.5	121.7
% Change	6.4	2.1	2.4	3.5	3.8	3.1	3.7	4.0	4.3	4.6						
Personal Consump Exp	113.0	113.4	113.3	114.2	115.4	116.7	118.0	119.3	120.7	122.1	3.2	2.2	4.0	111.6	114.1	118.7
% Change	6.6	1.4	-0.4	3.2	4.3	4.6	4.5	4.5	4.8	4.7						
Consumer Price Index	326.2	327.6	326.0	328.8	331.9	335.9	339.6	343.8	347.6	351.9	3.5	2.0	4.0	322.1	328.6	341.7
% Change	3.6	1.7	-1.9	3.5	3.8	4.9	4.5	5.0	4.5	5.0						

Table 9.

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May 1986

Implicit Price Deflators with Annual Percentage Changes for 1985-IV and 1986-I with Forecasts for 1986-II through 1988-I

	1985	1986				1987				1988	Percent Change			Annual		
	IV	I	II	III	IV	I	II	III	IV	I	84-85	85-86	86-87	1985	1986	1987
GNP Deflator	113.0	113.7	113.9	114.7	115.8	117.1	118.3	119.4	120.8	122.2	3.3	2.5	3.8	111.7	114.5	118.9
% Change	3.3	2.5	0.8	2.9	3.8	4.5	4.1	3.9	4.6	4.6						
Personal Cons. Exp.	113.0	113.4	113.3	114.2	115.4	116.7	118.0	119.3	120.7	122.1	3.2	2.2	4.0	111.6	114.1	118.7
% Change	4.0	1.4	-0.4	3.2	4.3	4.6	4.5	4.5	4.8	4.7						
Private Domestic Investment	103.8	104.9	105.7	106.5	107.2	108.2	109.0	110.1	110.8	111.5	1.1	2.9	3.3	103.1	106.1	109.5
% Change	1.2	4.3	3.1	3.1	2.7	3.8	3.0	4.1	2.6	2.6						
Structures	103.4	104.6	105.6	106.5	107.5	108.4	109.3	110.1	110.9	111.7	3.5	3.3	3.4	102.7	106.1	109.7
% Change	2.4	4.7	3.9	3.5	3.8	3.4	3.4	3.0	2.9	2.9						
Producers' Durables	100.1	100.9	101.4	102.0	102.6	103.3	104.0	104.8	105.5	106.3	0.4	1.8	2.6	99.9	101.7	104.4
% Change	-0.4	3.2	2.0	2.4	2.4	2.8	2.7	3.1	2.7	3.1						
Residential Structures	109.7	110.6	111.6	112.8	113.9	115.1	116.2	117.3	118.3	119.4	1.8	3.6	4.0	108.4	112.2	116.7
% Change	4.9	3.3	3.7	4.4	4.0	4.3	3.9	3.8	3.5	3.8						
Exports	102.4	102.4	102.1	102.5	103.0	103.9	104.8	105.8	106.8	107.8	-0.9	-0.3	2.8	102.8	102.5	105.3
% Change	-0.8	0.0	-1.2	1.6	2.0	3.5	3.5	3.9	3.8	3.8						
Imports	96.2	95.6	94.8	95.7	96.6	97.9	98.9	100.1	101.2	102.3	-1.8	-0.1	4.0	95.8	95.7	99.5
%Change	4.3	-2.5	-3.3	3.9	3.8	5.5	4.1	4.9	4.5	4.4						
Federal	110.2	111.9	111.9	112.5	113.4	115.7	116.6	117.5	118.5	120.9	3.1	2.0	4.1	110.2	112.4	117.1
% Change	0.0	6.3	0.0	2.2	3.2	8.4	3.1	3.1	3.4	8.4						
Federal Purchases	106.6	108.4	108.2	109.1	110.5	111.6	112.6	113.9	115.2	116.4	2.3	1.7	3.9	107.3	109.1	113.3
% Change	-3.7	6.9	-0.7	3.4	5.2	4.0	3.6	4.7	4.6	4.2						
Federal Value Added	117.1	117.5	117.8	117.8	118.4	122.4	123.1	123.4	124.1	128.5	4.7	2.5	4.6	115.0	117.9	123.3
% Change	9.0	1.4	1.0	0.0	2.1	14.2	2.3	1.0	2.3	15.0						
State & Local	119.2	120.0	120.7	122.0	123.3	125.0	126.4	127.8	129.2	131.0	5.7	4.0	4.6	116.8	121.5	127.1
% Change	6.3	2.7	2.4	4.4	4.3	5.6	4.6	4.5	4.5	5.7						
State & Local Purchases	111.8	110.9	109.8	110.4	111.5	112.8	113.9	115.0	116.3	117.6	4.0	0.5	3.5	110.1	110.7	114.5
% Change	4.8	-3.2	-3.9	2.2	4.0	4.7	4.0	3.9	4.6	4.5						
State & Local Value Added	124.5	126.7	128.8	130.4	132.0	134.0	135.5	137.1	138.9	140.8	7.0	6.5	5.3	121.6	129.5	136.4
% Change	7.4	7.3	6.8	5.1	5.0	6.2	4.6	4.8	5.4	5.5						

Table 10.

Georgia State University
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Economic Forecasting Center
May 1986

Consumption Details for 1985-IV and 1986-I with Forecasts for 1986-II through 1988-I

	1985	1986				1987				1988	Percent Change			Annual		
	IV	I	II	III	IV	I	II	III	IV	I	84-85	85-86	86-87	1985	1986	1987
CURRENT DOLLARS																
Durable Goods	362.0	362.4	365.3	371.9	378.2	381.4	387.0	381.2	380.4	384.6	9.1	2.2	3.5	361.5	369.5	382.5
Motor Vehicles & Parts	162.2	162.8	164.9	169.5	172.3	173.9	177.1	170.4	167.9	171.9	9.2	-0.6	3.0	168.4	167.4	172.3
Furniture	134.1	134.2	134.4	135.5	137.5	138.8	140.0	140.1	141.1	141.1	8.1	5.0	3.4	129.0	135.4	140.0
Other	65.7	65.4	66.0	66.9	68.4	68.7	69.9	70.7	71.4	71.6	10.8	4.1	5.2	64.1	66.7	70.2
Nondurable Goods	928.3	939.2	933.9	943.8	958.9	973.9	989.6	1003.1	1019.7	1033.6	4.6	3.5	5.6	912.2	944.0	996.6
Food	482.5	491.5	497.8	501.2	508.8	517.1	524.3	531.6	539.7	548.6	4.9	5.4	5.7	474.0	499.8	528.2
Clothing & Shoes	159.4	161.3	164.0	166.9	169.9	173.0	175.4	176.9	180.3	181.1	6.0	6.1	6.6	156.1	165.5	176.4
Gas & Oil	93.0	89.2	73.1	74.6	75.1	75.2	76.9	78.1	78.4	78.9	1.3	-15.1	-1.1	91.9	78.0	77.2
Fuel Oil & Coal	16.7	15.3	12.7	12.4	12.8	12.6	12.7	12.8	13.3	13.3	-10.6	-17.1	-3.4	16.1	13.3	12.9
Other	176.6	181.8	186.3	188.7	192.3	196.0	200.3	203.7	208.0	211.7	5.8	7.5	7.9	174.3	187.3	202.0
Services	1344.6	1369.1	1395.9	1421.0	1446.9	1474.8	1503.0	1531.3	1558.5	1588.8	7.3	7.6	7.7	1308.7	1408.2	1516.9
Housing	417.3	424.1	432.7	441.3	450.1	459.1	468.1	477.1	486.6	497.1	8.6	8.4	8.2	403.1	437.1	472.7
Household Operations Gas & Electric	87.5	86.0	87.2	88.7	88.7	90.0	90.9	92.7	92.5	93.5	5.1	-1.3	4.4	88.8	87.7	91.5
Household Operations Other	86.9	88.0	89.1	90.3	91.7	93.0	94.2	95.5	97.0	98.4	3.8	6.2	5.7	84.5	89.8	94.9
Transportation	89.3	92.1	93.3	94.5	96.5	98.5	100.4	102.3	104.1	106.0	5.8	8.2	7.7	87.0	94.1	101.3
Medical Care	288.2	293.9	301.3	309.0	316.6	324.7	333.3	341.5	349.6	358.1	8.0	9.0	10.5	280.1	305.2	337.3
Other	375.3	385.1	392.3	397.2	403.3	409.5	416.1	422.2	428.7	435.7	7.2	8.0	6.2	365.2	394.5	419.1
CONSTANT DOLLARS																
Durable Goods	346.7	345.4	346.8	351.7	355.1	355.3	357.7	350.7	347.5	349.8	8.3	1.3	0.9	345.4	349.8	352.8
Motor Vehicles & Parts	149.5	149.1	149.9	153.7	154.8	154.7	156.2	149.7	146.4	149.6	7.1	-2.5	-0.1	155.7	151.9	151.8
Furniture	135.0	134.9	135.3	136.0	137.4	138.0	138.5	138.0	138.1	137.5	9.3	5.3	1.7	129.1	135.9	138.2
Other	62.2	61.4	61.6	62.0	62.9	62.6	63.0	63.0	63.0	62.7	9.5	2.3	1.5	60.6	62.0	62.9
Nondurable Goods	851.1	867.1	880.1	886.0	890.8	895.7	901.0	904.5	909.3	912.1	2.3	4.0	2.5	846.9	881.0	902.6
Food	437.8	444.4	450.9	453.6	455.9	457.2	459.9	462.3	464.1	466.5	3.1	3.5	2.1	436.1	451.2	460.9
Clothing & Shoes	148.1	152.4	155.3	156.9	158.2	160.0	160.9	160.8	162.3	162.0	2.9	6.0	3.4	146.9	155.7	161.0
Gas & Oil	96.3	99.1	100.2	100.6	100.5	101.0	101.3	101.5	101.3	101.3	0.4	4.7	1.2	95.6	100.1	101.3
Fuel Oil & Coal	17.5	17.2	17.0	17.5	17.4	17.4	17.1	17.2	17.4	17.3	-7.1	-0.3	0.0	17.3	17.3	17.3
Other	151.4	154.0	156.7	157.4	158.8	160.1	161.8	162.7	164.2	165.0	1.9	3.7	3.5	151.1	156.7	162.2
Services	1132.6	1142.2	1151.5	1158.1	1166.1	1173.9	1181.1	1187.7	1193.9	1200.7	2.5	3.0	2.6	1120.8	1154.5	1184.2
Housing	343.2	345.2	347.3	349.4	351.4	353.4	355.4	357.4	359.4	361.5	2.2	2.4	2.3	340.2	348.3	356.4
Household Operations Gas & Electric	76.9	74.6	75.9	76.8	77.9	78.3	78.7	79.4	79.9	80.5	3.0	-1.4	3.6	77.4	76.3	79.1
Household Operations Other	73.5	73.8	74.1	74.5	74.9	75.5	75.8	76.1	76.5	76.8	-0.2	2.4	2.2	72.6	74.3	76.0
Transportation	77.3	78.6	79.1	79.3	80.0	80.5	80.8	81.1	81.3	81.6	2.7	3.0	2.1	76.9	79.3	80.9
Medical Care	236.9	238.6	239.5	241.2	243.0	244.7	246.5	248.2	249.7	251.5	2.1	2.7	2.8	234.2	240.6	247.3
Other	324.7	331.4	335.6	336.9	338.9	341.5	343.9	345.5	347.1	348.8	3.6	5.1	2.6	319.5	335.7	344.5

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LOW GROWTH TO ALMOST NO GROWTH LATE IN 1987

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Summary

Although many economists continue to wait for positive effects from declining oil prices, a 5% growth in consumption while GNP was expanding less than 2.5% during the first six months suggests that much of the stimulus from falling oil prices already occurred. Now that oil prices probably will trend upward modestly over the next eight quarters, although only reaching $17 per barrel early in 1988, consumption will be hardpressed to grow more rapidly than the 2.5% GNP growth path.

Moreover, consumers already appear to be reaching saturation points for automobiles, furniture, and wardrobes. Little further growth is anticipated in these important consumer sectors over the next year. Tax reductions to the consumer at the expense of corporations might enhance some consumer activity early in 1987, but rising corporate costs almost certainly would be reflected in higher prices. This is especially likely in service-related industries.

Moreover, net additions to housing stock have been growing in excess of 3% while the long-term expansion of housing capital is only 2.5%. Reduced mortgage rates are encouraging above trend housing accumulation. Tax changes almost certainly will dramatically slow multi-family activity during the next two years. In addition, reduced growth in real incomes should slow growth of single-family activity. As a result, even the strength in housing should gradually dissipate late in 1986 and more substantially in 1987. Joining the slowdown in housing will be a substantial slowing in construction of commercial property and industrial space. Vacancy rates continue to rise nationwide despite relatively brisk rates of absorption for most construction products. Now that the growth of business services is slowing from 9% employment gains in the past two years to a more modest 5% rate of expansion, these office absorption rates should fall by more than 20% in the next two years. Tax changes should sharply increase the cost of holding unutilized construction inventory. Therefore, desired vacancy rates should fall sharply below current vacancy performance, leading to a significant slump in construction activity. Partially offsetting this weakness will be the termination of a collapse in oil and gas exploration. Rig counts have begun edging upward from their 660 low point in July. Attempts by OPEC to reduce oil production may forestall any further weakness in exploration, although a significant rebound is not likely.

Even government will be growing more slowly, as states in the southwest will retrench as a result of the collapse in oil revenues. Possible changes in the tax treatment of municipal bonds also may discourage construction by state and local governments. Partially offsetting this more sluggish outlook for state and local government will be more rapid gains in federal spending now that

Gramm-Rudman limitations are not expected to be vigorously enforced by the Congress. Indeed, federal expenditures are now projected to grow 5% in the next fiscal year, up from only a 1% projected rate of growth in our previous forecast. Increased spending along with substantially softer economic gains than projected by the administration will lead to deficits well in excess of $200 billion during the next fiscal year.

Trade balances continue to reflect an absence of any improvement despite the dollar's sharp decline against major currencies. Moreover, exports during the second quarter were artifically enhanced by a one-time gold sale to Japan. While trade balances are expected to improve during the next year, reduced oil production in the United States along with increased oil consumption as a result of lower prices will sharply restrain the improving trade balances. Net foreign investment will remain in deficit by more than $120 billion over the next two years. This should lead to further deterioration in the dollar's value, ultimately leading to moderate relative gains in trade balances late in 1987.

Unfortunately, just when the trade accounts will strengthen, consumer growth and housing activity will weaken. The result will be a continuation of moderate economic expansion until rising oil prices and the falling dollar begin to generate increasing inflationary pressure in 1987. Although the inflation rate will remain modest, with the CPI rebounding from a 1.9% gain in 1986 to a still modest 3.4% rate of expansion in 1987, inflation rates in excess of 4% will become common late in 1987. Such increasing inflationary pressures will further dampen consumer activity, leading to virtually no growth late in that year.

Because of relatively sluggish economic activity ahead, inflation rates will not fully reflect the impact that a falling dollar otherwise would generate. Moreover, interest rates will remain surprisingly modest. Although the prime rate may momentarily rise early in 1987, a dip to less than 8% is expected near the end of the forecast period. Long-term government bonds probably will be yielding 6.5% by the middle of 1987. Single digit mortgage rates are expected to be commonplace for much of the next two years.

On the other hand, corporate profits will be squeezed by moderately rising cost pressures and the failure to improve profit margins as a result of continued vigorous competition. As a result, stock prices are expected to show minimal gains during the next year.

Data Revisions

Annual data revisions in the GNP accounts revealed a more robust 2.7% growth in 1985 in comparison to the 2.2% originally estimated. Moreover, real growth during the fourth quarter was increased from 0.7% to 2.1%. The latter adjustment was primarily the result of more complete data on import flows into the United States. As a result of the reporting problems on the trade accounts, quarterly estimates of economic activity remain suspect until data revisions become available for the entire year.

In fact, the revisions are less dramatic than they appear at first glance. Most of the upward revision in GNP is the result of upward revisions in service expenditures. Utility consumption has been about $5 billion more vigorous than originally reported. Consumption of transportation services also has been revised upward by approximately $5 billion as well as real expenditures for

medical care. The largest upward revision in the service component occurred for other services and occurred largely in the imputed financial sector. None of these upward revisions in service expenditures reveals any dramatic desire on the part of consumers to aggressively increase spending.

Other revisions included upward estimates of expenditures on residential structures, leading to the accumulation of residential capital at a 3% annual rate toward the end of 1985. Over the past ten years, by contrast, net residential capital has expanded at an average of 2.5% annual rate. Construction of other structures was revised sharply downward. Part of this adjustment reflects a better understanding of the role that oil and gas exploration plays in that component. Nevertheless, commercial overbuilding is a small problem according to the net accumulation of capital for nonresidential structures. At the end of 1985, net capital accumulation for other structures was 3.1%, only marginally above the 3.0% long-term growth trend. Offsetting the decling in spending on other structures was a significant increase in purchases for producer's durables. As a result, net capital formation of producers' durables exceeded 4.5% late in 1985, well above its 4.3% long-term growth path. This suggests that a significant slowing or actual decline in producers' durables purchases could occur late in 1986 and in 1987.

Of course, an upward revisions in expenditures must mean upward revisions in income. In general, wages and salaries were increased while estimates of wage benefits were reduced. However, employee compensation remains unchanged, suggesting that the share of GNP flowing to wage recipients declined slightly. Corporate profits were adjusted downward by nearly $18 billion while rental income was halved to less than $8 billion. On the other hand, farm incomes were significantly increased, although most of the gain reflected increased crop supports. As in previous revisions, however, the bulk of the upward adjustment was in the interest component, which had been underestimated by $35 billion. Apparently, the preliminary GNP accounts had been unable to capture the corporate restructuring that significantly raised the share of capital being supported by debt relative to equity. On balance, however, total returns to capital were slightly enhanced by the data revisions.

The upward revision in housing and producers' durables capital suggest that those sectors could grow more slowly in the next two years. Of greatest economic significance is the significant downward revision in the equity portion of capital ownership. While this sharply increases the leverage of equity ownership, and therefore enhances its volatility, it also suggests that stock market values are currently excessive for the earnings in corporate America. Indeed, our stock market formula currently suggests that equity values are slightly above economically justified conditions during the summer months.

Outlook

Just as it appeared that oil prices would fall into single-digit territory for the remainder of the year, the OPEC nations were able to scrap together a production agreement that would justify $17 per barrel oil if fully implemented. This agreement has significantly firmed oil prices.

What is lost by many analysts is the enormous inventory of oil that currently persists throughout the world. Indeed, storage capacity in Rotterdam is fully utilized. Production constraints are necessary to prevent a total collapse in the oil markets. When the heating season arrives, causing a natural

increase in oil demand, current production quotas will be abrogated, preventing oil prices from rising in excess of $15 per barrel until 1987.

Oil price increases will only be sufficient to arrest the decline in oil and gas exploration. No early employment rebound is expected in the oil patch. As a result, the oil and gas exploration component of other structures will continue to pull down that component into the middle of 1987.

By the time that the oil extraction slump bottoms, the commercial construction slump will be in full swing. As a result, spending on nonresidential structures will continue to fall into 1988.

As a result of data revisions and the probable change in tax reform, housing activity is expected to fall significantly in 1987. This surprising result occurs despite falling mortgage rates. For the first time in the postwar period, housing will respond to exess capacity considerations rather than to financing cost and availability. The housing industry has accumulated homes in excess of normal need for four consecutive years and is now accumulating net housing capital 20% in excess of long-term trend rates of growth. Most of the weakness in housing, however, will be initiated by the adverse effect tax changes will play upon purchases of rental property. Because of repeal of the investment tax credit and more stringent depreciation schedules, the tax advantages generated by real estate investment will be sharply reduced. In order to maintain an appropriate rate of return for investors, rental rates will need to rise significantly. However, rates cannot rise while excess capacity prevails. With rental vacancy rates approaching 7% nationwide, a significant slump in multi-family construction must occur prior to an acceleration in rental values. Thus, multi-family housing starts are expected to fall dramatically in 1987 and remain at those subdued levels in 1988. In addition, slower growth in real incomes will gradually diminish single-family housing activity.

Loss of the investment tax credit will also diminish capital spending desires. The tax reform package will increase the effective tax on earnings generated from capital while reducing the effective tax on earnings generated from labor. While no dramatic plunge in capital spending is expected over the next two years, neither is a significant rebound in the cards. As a result of all these considerations, fixed investment will be subtracting from economic activity during the next two years.

Fortunately, no significant inventory overhang currently exists. Because of falling commodity prices, the desire to hold inventories has been curtailed. As a result, inventory adjustments are relatively modest and are achieved relatively quickly. While automobile inventories became excessive during the first quarter, production adjustments have been nearly complete to re-establish inventory balances by the end of the second quarter. Although a temporary flare-up in commodity prices could be generated by falling currency values and this might generate an increasing desire to hold inventories, such a surge of activity would be shortlived and would lead to a subsequent economic slump. Thus, the return of commodity inflation could generate more strength in the economy for 1987 than currently projected, but it would then lead to a recession by the end of that year.

Of course, weakness in investment can be offset by continued strength in consumer activity. On the surface, an increase in the savings rate to more than 5% suggests that the consumer still has substantial purchasing capacity. In

addition, the consumer has not fully exhausted the stock market gains that have sharply added to consumer wealth.

Unfortunately, the increase in consumer savings can be traced directly to increased farm subsidies, which are notoriously used to pay down debt, an element of savings. Excluding farm subsidies, household savings is not robust. In addition, the rapid wealth increases are less than they seem to be. Stock market values have appreciated sharply and even bond portfolios have registered significant gains. However, some households have been leveraging their balance sheets almost as rapidly as the corporate sector. As a result, household liabilities outstanding have grown almost as rapidly as financial assets and household portfolios. At the same time, a slowing in housing inflation has sharply reduced the wealth contained in the home. As a result, the ratio of household assets to household outlays has only appreciated dramatically in the past year. (A revision in household portfolios to include the equity values of unincorporated businesses leads to a higher ratio than previously reported. It appears that a ratio approaching four is considered desirable by households.)

While some of the appreciation in household balance sheets will be spent in subsequent quarters, our projections do not show any significant further appreciation in the value of household portfolios. In addition, spending on automoblies and furniture will be limited by the absence of pent-up demand for those goods. As a result, consumer spending should grow no more rapidly than economic activity during the next two years.

Of course, more rapid economic activity could develop if trade balances significantly improve. However, the United States already is reducing oil production and replacing it with imports. In addition, the foreign share of capital equipment and transportation equipment continues to grow modestly. Because of long lags in effecting changes in trade flows for these especially durable goods, imports should not slow substantially until well into 1987.

Therefore, any appreciable improvement in our trade accounts requires a significant expansion of exports. Some gains will be achieved as agricultural sales significantly grow following a further downward movement in crop support prices to world levels at the end of the current crop year. However, increased agricultural exports merely reduce government spending for farm inventory without significantly altering American production of agricultural goods. Thus, exports of agricultural goods, while helping the farm community and improving the budgetary position of the federal government will not significantly alter economic activity in the next two years. Instead, Americans need to sell more manufactured goods and transportation equipment abroad. To do so, however, foreign economies must be expanding. A falling dollar provides opportunities to capture a disproportionate share of foreign growth but does not provide sufficient ammunition to dislodge existing markets from foreign suppliers. As growth in the industrialized countries of the world is expected to fall below 3% in 1987 and world GNP is expected to expand less than 4%, the opportunity to significantly expand exports is not great.

Adding to potential weakness in the dollar's value will be prospects of further declines in interest rates. As anticipated in our previous forecast, fixed investment was momentarily restrained during the winter months because of early purchases prior to anticipated losses of tax credits. A second quarter rebound in fixed investment had been expected to push up interest rates. In fact, interest rates rose slightly through May but then fell in June as oil inventories were liquidated and oil exploration plunged.

The weakness foreseen in fixed investment will ensure further moderate declines in interest rates over the next two years. Of course, any temporary acceleration in commodity inflation would lead to substantial inventory investment and rising short-term rates. Such a modest bout of upward interest rate pressures still is anticipated in the middle of 1987. Subsequent weakness, however, should bring rates back down before the end of that year.

Some monetary economists are wondering when the rapid expansion in most money measures will be reflected in increased economic activity. Indeed, velocity as measured by either M1 or M2 has fallen in the past two years and our projections show further declines for the next two years. These declines are justified on the basis of a change in the portfolio use of monetary instruments. First, dollar-based financial instruments are more heavily utilized by foreign investors, especially as they significantly increase their holdings of American assets. Second, interest rates on checkable deposits tend to fluctuate less than other short-term rates. Therefore, when short-term rates decline, checkable deposits become relatively more attractive as savings instruments. Because short-term rates are expected to remain low, the use of checkable deposits for savings purposes will remain unusually high. Although some of the portfolio adjustments are from instruments contained in M2 or M3, the significant importance of checkable deposits in both measures of money tend to increase the magnitudes of those money measures as well. More instructive of actual growth in money instruments intended for transactions purposes is the growth in currency. Currency growth in the past 13 weeks has been only 6.3%. In fact, money availability for transactions purposes may have been insufficient to generate rapid expenditures growth. If the Federal Reserve had followed a money targeting rule as some economists had suggested, a severe recession probably already would have begun.

Assumptions

When tax reform appeared to be all but dead, the Senate decided to reverse its procedures. Rather than trying to close loopholes and then buy down marginal tax rates, it chose to establish relatively low marginal tax rates and then see what loopholes could be eliminated. As a result, tax advantages that were vigorously defended when marginal tax rates were 38% became expendible in trying to hold marginal tax rates to a peak of 27%. As a result of this exercise, that both corporate and individual marginal tax rates will be reduced substantially. Investment in tax shelters to generate substantial tax writeoffs against other income will be sharply curtailed. This will dramatically reduce the flow of funds into real estate and will also restrain some agricultural and leasing investments. It is not yet clear whether exemptions provided for the oil and gas industry will be sustained when Congress votes upon a final bill. In addition to a new definition of "passive income" the proposals eliminate special capital gains treatment. The result of these changes is to increase the taxes paid by earnings generated by capital and reduce those generated by labor.

The bill also significantly increases the tax payments made by corporations while reducing those made by individuals. The economic impact of these changes rests upon who finally pays taxes that are levied upon corporations. Evidence strongly suggests that shareholders do not pay in the long-run, although investors may temporarily experience a decline in the market value of their asset holdings until adjustments are completed. Instead, workers, through reduced wage gains or increased unemployment, and consumers through higher prices pay corporate taxes. Where the marginal supplier is a foreign producer,

the ability to pass tax increases on to consumers is sharply limited. Fortunately, reduced marginal tax rates for wage recipients will minimize the conflict that develops as their wages are restrained relative to prevailing economic conditions.

Many of the tax changes have been built into our estimates of tax receipts contained in Table 5. It was also assumed that state and local governments would accept the higher tax collection generated by base broadening definitions instituted in the federal tax codes. Some of the corporate based broadening effects can be seen in the elimination of a positive capital consumption adjustment component during the forecast period.

In addition to tax reform, some of the assumptions generated in this forecast include the following:

a. OPEC production restraint agreements will be only partially successful. Therefore, oil prices will average $15.11 during the fourth quarter of 1986 and will rise to $17.46 by the fourth quarter of 1987. Oil prices are expected to be over $17.50 per barrel in the middle of 1988.

b. The Federal Reserve is expected to maintain a federal funds target rate through much of the forecast period. A modest spurt in commodity inflation and investment activity might momentarily lead to Federal Reserve restraint in the middle of 1987. However, restraint is not expected to be substantial and is not expected to materially alter interest rates.

c. No significant changes in excise taxes were assumed in the forecast period. No new agricultural legislation was anticipated and crop support prices were expected to reach world levels at the end of the 1986 crop season.

d. Social Security taxes are expected to remain at 7.15% on a wage base of $44,000 in 1987. The wage based is expected to rise to $45,800 in 1988 while the tax base is scheduled to rise to 7.51% in that year. The cost-of-living adjustment for Social Security recipients is expected to be 3% in the first quarter of 1987 and 4% in the first quarter of 1988. Other index provisions in the federal budget are assumed to be ineffective in 1987 before rising by 4% in 1988.

e. World trade is expected to slow to only a 3% growth in 1986 and rebound only slightly to a 4% gain in 1987 and 1988.

f. Strike activity in the steel industry was expected to persist for the remainder of this year but have no significant effect upon forecasted results. No other significant strike activity was assumed in the forecast.

Conclusions

While trade balances are expected to improve in the next two years, the substitution of foreign for domestically produced oil and a shift in the terms of trade against the United States will prevent improvement from being dramatic. With construction entering a slump, oil and gas exploration remaining in a decline until the end of 1987, and housing also showing weakness, fixed investment should trend down for the next two years.

No pent-up demand remains for automobiles and furniture while the consumer's capacity to maintain current growth rates is gradually diminishing. Some of the wealth effects generated by a booming stock market should provide some consumer support for the economy. Nevertheless, areas of economic slowing appear to be more substantial than areas of economic strength. As a result, slow growth will be converted to nearly no growth by the middle of 1987.

Fortunately, this minimal growth outlook contains some favorable side effects. First, inflation will only grudgingly intensify. The Consumer Price Index is expected to grow only 3.5% in 1987, although it will be growing in excess of 4% by the middle of the year. Second, interest rates will trend downward even if a temporary surge in commodity prices caused by a declining dollar leads to modest inventory rebuilding in 1987. By the end of the forecast period interest rates are expected to be lower than at the present time. Third, nearly no growth may begin to improve the trade balances that a plunging dollar has not yet been able to generate. Therefore, substantial improvement in trade balances might resurface before the end of the decade.

On the other hand, minimal growth means higher government deficits than otherwise would prevail. These increased deficits will continue to create supply problems in the credit market, thus preventing any further significant improvement in interest rates. In addition, nearly no growth means very little gains in equity earnings. Therefore, the stock market is expected to mark time through much of 1987 before resuming its upward path in 1988.

In effect, the consumer as an engine of growth has become exhausted. Housing already has progressed as far as need requires while capital spending appears to be excessive for current rates of utilization. The only substantial engine of growth remaining is in the trade accounts, but the absence of expansionary policy in foreign industrialized countries prevents that sector from significantly pulling the U. S. economy forward. A bit of tax change uncertainty and oil price fluctuations adds to the less than robust economic climate over the next two years.

On the other hand, the good news is that the bad news is not that terrible.

Table 1.

Georgia State University
College of Business Administration
Economic Forecasting Center
August 1986

U.S. Expenditures for 1986-I and 1986-II with Forecasts for 1986-III through 1988-II

		1986				1987				1988		Percent Change			Annual		
		I	II	III	IV	I	II	III	IV	I	II	84-85	85-86	86-87	1985	1986	1987
1.	Personal Consumption Expenditures	2697.9	2730.1	2765.1	2808.5	2850.0	2894.1	2937.3	2978.3	3017.2	3070.5	7.1	5.8	6.0	2600.5	2750.4	2914.9
2.	Autos and Parts	163.5	173.6	176.0	177.2	179.8	182.4	183.8	177.8	175.1	181.4	9.5	2.0	4.9	169.2	172.6	181.0
3.	Other Durable Goods	197.3	201.1	202.9	204.7	205.8	206.5	207.6	209.3	210.0	210.0	7.6	6.0	2.9	190.1	201.5	207.3
4.	Nondurable Goods	929.7	926.0	929.2	943.1	956.5	969.3	980.8	996.4	1008.7	1022.7	4.0	3.0	4.7	905.1	932.0	975.8
5.	Services	1407.4	1429.4	1457.0	1483.5	1507.9	1535.9	1565.1	1594.8	1623.4	1655.4	8.9	8.1	7.4	1336.1	1444.3	1550.9
6.	Gross Private Domestic Investment	708.3	691.4	696.9	692.2	702.0	710.1	705.2	703.2	700.1	686.9	-0.1	5.5	1.1	661.2	697.2	705.1
7.	Residential Struct.	205.3	214.6	220.2	218.6	216.2	213.5	212.1	210.4	208.5	209.1	5.7	11.9	-0.8	191.8	214.7	213.1
8.	Other Structures	154.6	142.1	135.7	134.0	134.0	134.4	135.9	137.5	139.5	141.3	11.1	-8.5	-4.3	154.8	141.6	135.5
9.	Producers' Durables	304.6	315.2	318.5	320.5	320.9	321.2	322.0	322.5	322.7	323.8	9.4	3.7	2.2	303.4	314.7	321.7
10.	Change in Inventories	43.8	19.5	22.5	19.1	30.9	41.0	35.2	32.8	29.4	12.7	---	---	---	11.1	26.2	35.0
11.	Net Export of Goods and Services	-93.7	-96.4	-93.4	-92.8	-86.3	-92.0	-84.6	-86.6	-81.4	-80.2	---	---	---	-78.9	-94.1	-87.4
12.	Exports	374.8	375.6	376.8	386.8	389.7	392.8	405.9	412.4	416.3	423.3	-3.4	2.4	5.7	369.7	378.5	400.2
13.	Imports	468.5	472.0	470.2	479.6	476.0	484.8	490.5	499.0	497.7	503.5	1.6	5.3	3.2	448.7	472.6	487.6
14.	Government Purchases of Goods and Services	836.7	857.2	863.6	885.6	897.5	905.4	916.0	935.4	949.5	961.7	11.2	5.6	6.1	815.4	860.8	913.6
15.	Federal	355.7	364.8	369.4	384.6	389.8	390.3	393.6	405.4	412.2	415.8	13.7	4.1	7.1	354.1	368.6	394.8
16.	National Defense	266.4	277.5	281.3	286.5	294.1	298.5	303.3	307.7	316.5	321.0	10.4	7.2	8.3	259.4	277.9	300.9
17.	Other	89.3	87.3	88.1	98.1	95.7	91.8	90.3	97.7	95.7	94.8	24.3	-4.3	3.5	94.8	90.7	93.9
18.	State and Local	480.9	492.4	494.2	501.0	507.7	515.1	522.4	530.0	537.3	545.9	9.3	6.7	5.4	461.3	492.1	518.8
19.	Gross National Product	4149.2	4182.3	4232.2	4293.5	4363.2	4417.6	4473.9	4530.3	4585.4	4638.9	6.2	5.4	5.5	3998.1	4214.3	4446.3
20.	Amount of Change	61.5	33.1	49.9	61.3	69.7	54.4	56.3	56.4	55.1	53.5	---	---	---	233.1	216.2	231.9
21.	% Change*	6.2	3.2	4.9	5.9	6.7	5.1	5.2	5.1	5.0	4.7	---	---	---	6.2	5.4	5.5
22.	% Real Change*	3.8	1.1	1.9	2.8	2.9	1.1	1.4	0.9	0.5	0.5	---	---	---	2.7	2.6	2.0
23.	% Price Change*	2.5	2.1	2.9	3.1	3.6	3.1	3.6	4.1	4.5	4.3	---	---	---	3.3	2.8	3.5
24.	Implicit Price Deflator	113.5	114.1	114.9	115.8	116.8	118.0	119.1	120.3	121.6	122.9	3.3	2.8	3.5	111.5	114.6	118.6
25.	Change in Final Sales	14.6	57.4	46.9	64.7	57.9	44.3	62.1	58.8	58.5	70.2	---	---	---	---	---	---
26.	GNP in 1982 Dollars	3655.9	3665.7	3683.1	3708.3	3734.8	3744.7	3757.7	3765.7	3770.2	3774.6	2.7	2.6	2.0	3585.2	3678.3	3750.7

Table 2.

Georgia State University
College of Business Administration
Economic Forecasting Center
August 1986

U.S. Real Expenditures for 1986-I and 1986-II with Forecasts for 1986-III through 1988-II

	1986				1987				1988		Percent Change			Annual		
	I	II	III	IV	I	II	III	IV	I	II	84-85	85-86	86-87	1985	1986	1987
1. Personal Consumption	2372.7	2407.0	2421.4	2434.5	2449.2	2460.6	2473.2	2478.0	2485.1	2503.2	3.5	3.6	2.3	2324.5	2408.9	2465.3
2. Durable Goods	345.4	357.5	359.7	360.5	362.1	363.4	363.9	357.6	354.0	359.2	7.8	3.5	1.7	343.9	355.8	361.8
3. Nondurable Goods	860.6	875.5	878.6	882.6	889.4	892.1	895.8	899.1	903.8	909.1	1.6	3.9	2.3	841.7	874.3	894.1
4. Services	1166.6	1179.9	1183.2	1191.4	1197.7	1205.1	1213.5	1221.3	1227.3	1234.9	3.7	3.6	2.5	1139.0	1180.3	1209.4
5. Gross Private Domestic Invest.	684.0	667.6	668.8	659.3	665.3	669.0	659.7	653.6	645.7	628.4	-0.7	3.4	-1.2	647.7	669.9	661.9
6. Residential Structures	186.3	193.1	196.8	193.6	190.0	185.8	182.7	179.8	176.4	175.0	3.9	8.6	-4.1	177.3	192.5	184.6
7. Other Structures	148.1	132.6	125.2	122.6	121.5	121.0	121.2	121.7	122.5	123.0	7.7	-13.2	-8.2	152.2	132.1	121.4
8. Producers' Durables	309.7	322.2	324.6	324.7	323.8	323.1	322.0	320.3	318.9	318.7	10.1	3.6	0.6	309.3	320.3	322.3
9. Change in Inventories	39.9	19.6	22.2	18.7	30.0	39.1	33.8	31.8	27.9	11.7	---	---	---	9.0	25.1	33.7
10. Net Export of Goods and Services	-125.9	-146.3	-146.0	-139.9	-132.5	-136.0	-127.7	-127.4	-121.0	-118.5	---	---	---	-108.2	-139.5	-130.9
11. Exports	369.2	371.9	375.3	383.4	384.3	384.7	393.6	396.2	396.4	349.0	-2.0	3.5	3.9	362.3	375.0	389.7
12. Imports	495.1	518.3	521.3	523.3	516.8	520.7	521.3	523.6	517.4	517.5	3.8	9.3	1.2	470.6	514.5	520.6
13. Gov't Purchases of Goods & Services	725.2	737.5	738.9	754.1	752.8	751.1	752.5	761.5	760.4	761.5	6.8	2.5	2.1	721.2	738.9	754.5
14. Federal	320.4	325.1	327.8	341.8	339.5	336.2	336.3	344.2	342.1	341.6	10.9	1.6	3.1	323.6	328.8	339.1
15. State & Local	404.8	412.4	411.1	412.3	413.3	414.9	416.2	417.3	418.3	419.9	3.7	3.1	1.3	397.6	410.2	415.4
16. Gross National Product	3655.9	3665.7	3683.1	3708.3	3734.8	3744.7	3757.7	3765.7	3770.2	3774.6	2.7	2.6	2.0	3585.2	3678.3	3750.7
17. Final Demand	3616.0	3646.1	3660.9	3689.6	3704.8	3705.6	3723.9	3733.9	3742.3	3762.9	4.2	2.1	1.7	3576.2	3653.2	3717.1
18. Private Domestic Product	3260.0	3271.7	3290.1	3314.4	3339.3	3345.2	3356.6	3364.0	3367.4	3369.1	3.1	2.9	2.0	3192.7	3284.1	3351.3

Table 3.

Georgia State University
College of Business Administration
Economic Forecasting Center
August 1986

Income Related U.S. GNP Components for 1986-I and 1986-II with Forecasts for 1986-III through 1988-II

		1986				1987				1988		Percent Change			Annual		
		I	II	III	IV	I	II	III	IV	I	II	84-85	85-86	86-87	1985	1986	1987
1.	Compensation of Employees	2461.5	2478.8	2510.3	2540.4	2578.8	2613.4	2648.7	2681.3	2731.6	2772.3	6.9	5.5	5.3	2368.2	2497.8	2630.6
2.	Wage and Salary	2044.1	2057.6	2083.8	2108.1	2138.1	2167.0	2196.8	2223.8	2258.1	2292.6	7.0	5.5	5.2	1965.9	2073.4	2181.4
3.	Manufacturing	470.5	468.0	467.3	470.0	472.8	476.6	480.6	483.0	486.0	491.9	4.8	1.9	2.0	460.2	469.0	478.3
4.	Other Commodity-Producing Industries	151.5	151.9	152.5	151.4	150.6	150.7	151.6	152.6	153.4	156.9	6.4	2.8	-0.3	147.6	151.8	151.4
5.	Distributive Industries	485.2	484.5	492.8	499.5	506.8	514.1	522.1	529.0	536.6	544.2	7.7	3.0	5.6	476.1	490.5	518.0
6.	Service Industries	549.6	560.8	574.3	586.2	597.3	609.5	621.5	633.2	646.0	659.5	9.7	9.9	8.4	516.4	567.7	615.4
7.	Military	70.0	70.4	70.3	70.7	73.2	73.9	74.0	74.8	78.2	79.0	6.8	3.8	5.2	67.8	70.4	74.0
8.	Civilian Government	317.2	322.3	326.4	330.3	337.4	342.2	347.0	351.2	357.9	363.1	7.5	6.6	6.3	304.1	324.1	344.5
9.	Supplements	417.4	421.4	426.5	432.3	440.7	446.4	451.9	457.5	473.5	479.7	6.5	5.5	5.8	402.4	424.4	449.1
10.	Proprietors' Income	265.3	288.0	286.1	298.4	303.9	307.0	307.7	314.8	310.6	310.8	7.4	11.8	8.4	254.4	284.5	308.4
11.	Business & Professional	240.9	249.0	258.4	266.9	275.3	276.6	278.9	282.1	283.8	285.3	9.7	12.7	9.6	225.2	253.8	278.2
12.	Farm	24.4	39.1	27.7	31.5	28.6	30.4	28.8	32.7	24.5	26.3	-7.2	5.0	-1.8	29.2	30.7	30.1
13.	Rental Income	12.8	15.1	16.5	16.9	17.3	17.2	17.6	17.8	17.6	17.4	-8.1	101.0	14.0	7.6	15.3	17.5
14.	Net Interest	304.9	299.1	297.3	300.1	306.2	306.4	304.6	306.1	304.3	300.8	1.3	-3.5	1.8	311.4	300.4	305.8
15.	Corporate Profits Adj.	296.4	306.1	305.4	313.8	319.1	315.5	317.5	314.1	316.8	320.7	6.0	8.8	3.6	280.7	305.4	316.6
16.	National Income	3340.7	3387.1	3415.6	3469.6	3525.3	3559.5	3596.1	3634.1	3680.9	3722.0	6.3	5.6	5.2	3222.3	3403.3	3578.8
17.	Indirect Business Tax	346.7	340.4	342.6	347.6	353.7	359.7	365.7	370.3	376.5	382.7	6.2	3.9	5.2	331.4	344.3	362.4
18.	Capital Consumption Adj.	-30.4	-26.4	-23.8	-21.6	-16.5	-12.3	-8.6	-4.2	0.2	4.1	---	---	---	-30.2	-25.7	-10.4
19.	Capital Consumption Alw.	477.9	479.2	484.8	488.7	494.3	498.2	504.1	507.9	510.3	514.1	13.3	3.3	3.8	467.3	482.7	501.1
20.	Business Transfers	22.3	22.9	23.5	24.1	24.7	25.3	26.0	26.7	27.3	28.0	14.1	11.1	10.7	20.9	23.2	25.7
21.	Net Govt. Subsidies	-4.1	-21.8	-16.2	-20.8	-12.9	-10.5	-11.1	-13.9	-9.9	-7.6	-22.1	92.4	-23.1	-8.2	-15.7	-12.1
22.	Statistical Discrepancy	-3.6	0.9	5.7	5.9	-5.4	-2.3	1.7	9.4	0.1	-4.4	---	---	---	-5.5	2.2	0.9
23.	Gross National Product	4149.2	4182.3	4232.2	4293.5	4363.2	4417.6	4473.9	4530.3	4585.4	4638.9	6.2	5.4	5.5	3998.1	4214.3	4446.3

Table 4.

Georgia State University
College of Business Administration
Economic Forecasting Center
August 1986

Derivation of U.S. Personal Income for 1986-I and 1986-II with Forecasts for 1986-III through 1988-II

	1986				1987				1988		Percent Change			Annual		
	I	II	III	IV	I	II	III	IV	I	II	84-85	85-86	86-87	1985	1986	1987
1. National Income	3340.7	3387.1	3415.6	3469.6	3525.3	3559.5	3596.1	3634.1	3680.9	3722.0	6.3	5.6	5.2	3222.3	3403.3	3578.8
2. Less: Corp. Profits Adj.	296.4	306.1	305.4	313.8	319.1	315.5	317.5	314.1	316.8	320.7	6.0	8.8	3.6	280.7	305.4	316.6
3. Social Insurance	371.5	373.3	377.3	381.7	390.8	395.3	399.8	404.0	427.1	432.5	8.9	5.7	5.7	355.7	376.0	397.5
4. Plus: Gov't Transfers	482.4	486.8	491.3	493.8	502.2	504.9	510.0	513.1	525.5	528.9	6.6	4.8	3.9	466.2	488.6	507.6
5. Old Age, Survivors, etc.	263.2	264.3	267.6	268.3	274.5	275.7	279.6	280.9	288.3	289.8	7.5	4.9	4.4	253.4	265.9	277.7
6. Unemployment Benefits	15.5	16.4	16.0	16.7	16.5	16.5	16.6	17.0	17.8	17.9	-0.5	2.7	3.1	15.7	16.2	16.7
7. Veterans' Benefits	17.0	16.9	16.7	16.4	16.8	16.8	16.6	16.3	16.7	16.7	1.5	0.4	-0.7	16.7	16.8	16.6
8. Employees' Retirement	69.1	70.0	71.3	72.3	73.4	74.3	75.6	76.6	79.1	80.3	9.6	6.1	6.1	66.6	70.7	75.0
9. A.F.D.C.	16.0	16.3	16.5	16.6	16.7	17.0	17.1	17.3	17.7	17.8	3.5	6.0	4.1	15.4	16.4	17.0
10. Other	101.7	102.8	103.2	103.5	104.3	104.6	104.5	105.0	105.9	106.4	4.9	4.6	1.8	98.3	102.8	104.6
11. Business Transfers	22.3	22.9	23.5	24.1	24.7	25.3	26.0	26.7	27.3	28.0	14.1	11.1	10.7	20.9	23.2	25.7
12. Interest Transfers	175.8	181.5	185.5	190.5	195.0	200.6	206.6	212.9	217.5	222.2	17.3	11.2	11.2	164.9	183.3	203.8
13. Personal Dividends	79.1	81.1	83.1	84.9	86.9	88.7	90.5	91.8	93.2	94.9	2.3	7.4	9.0	76.4	82.1	89.5
14. Equals: Personal Income	3432.6	3480.0	3516.3	3567.4	3624.2	3669.5	3712.7	3760.5	3800.5	3842.7	6.6	5.6	5.5	3314.5	3499.1	3691.7
15. Less: Personal Tax Payments	497.5	500.8	517.8	528.7	501.3	506.8	519.6	530.8	528.5	534.0	10.7	5.1	0.7	486.5	511.2	514.6
16. Equals: Disposable Personal Income	2935.1	2979.2	2998.5	3038.7	3122.9	3162.7	3193.1	3229.7	3272.0	3308.8	5.9	5.7	6.3	2828.0	2987.9	3177.1
17. Less: Consumption	2697.9	2730.1	2765.1	2808.5	2850.0	2894.1	2937.2	2978.3	3017.2	3070.5	7.1	5.8	6.0	2600.5	2750.4	2914.9
18. Less: Other Outlays	91.5	93.4	95.8	98.7	101.2	103.5	106.0	108.5	110.8	113.1	14.2	12.6	10.5	84.3	94.9	104.8
19. Equals: Personal Savings	145.6	155.7	137.5	131.5	171.7	165.1	149.8	142.9	144.0	125.1	-15.1	-0.5	10.4	143.3	142.6	157.4
20. Savings Rate (%)	5.0	5.2	4.6	4.3	5.5	5.2	4.7	4.4	4.4	3.8	-19.4	-5.9	3.7	5.1	4.8	5.0

Table 5.

Georgia State University
College of Business Administration
Economic Forecasting Center
August 1986

U.S. Federal Government Activity for 1986-I and 1986-II with Forecasts for 1986-III through 1988-II

	1986				1987				1988		Percent Change			Annual		
	I	II	III	IV	I	II	III	IV	I	II	84-85	85-86	86-87	1985	1986	1987
1. Government Receipts	804.1	809.3	824.9	845.9	832.0	837.0	854.2	866.7	887.4	895.7	9.8	2.9	3.2	797.9	821.1	847.5
2. Personal Tax & Non-Tax	350.3	351.5	366.7	375.2	343.7	346.5	357.1	365.8	361.4	364.7	11.7	4.4	-2.1	345.6	360.9	353.3
3. Corporate Profits Tax	71.2	80.3	79.2	87.6	95.1	93.3	95.6	95.5	96.0	95.8	-3.2	8.3	19.2	73.5	79.6	94.9
4. Indirect Business Tax	52.7	50.5	48.6	49.1	50.6	51.1	51.8	52.3	54.5	55.3	0.7	-10.4	2.4	56.1	50.2	51.5
5. Contributions for Social Security	325.8	327.0	330.4	334.0	342.6	346.1	349.7	353.1	375.5	379.9	9.1	5.7	5.6	311.5	329.3	347.9
6. Government Expenditures	1001.5	1039.6	1043.4	1065.7	1069.5	1075.3	1087.4	1107.2	1121.3	1128.4	9.9	5.3	4.6	984.9	1037.6	1084.9
7. Purchases of Goods and Services	355.7	364.8	369.4	384.6	389.8	390.3	393.6	405.4	412.2	415.8	13.7	4.1	7.1	354.1	368.6	394.8
8. Defense	266.4	277.5	281.3	286.5	294.1	298.5	303.3	307.7	316.5	321.0	10.4	7.2	8.3	259.4	277.9	300.9
9. Durables	75.7	82.3	84.6	87.5	89.1	90.8	93.2	94.7	96.5	98.2	14.4	10.2	11.4	74.9	82.5	92.0
10. Nondurables	11.8	12.5	11.2	11.3	11.6	12.1	12.2	12.5	12.7	12.8	0.4	-4.5	3.4	12.3	11.7	12.1
11. Military Compensation	70.0	70.4	70.3	70.7	73.2	73.9	74.0	74.8	78.2	79.0	6.8	3.8	5.2	67.8	70.4	74.0
12. Civilian Compensation	33.8	34.1	34.2	34.3	35.6	35.8	36.0	36.2	37.7	37.9	6.4	2.3	5.3	33.3	34.1	35.9
13. Other Services	68.7	71.4	74.2	76.0	77.9	79.1	80.9	82.4	84.1	85.8	12.8	11.7	10.3	65.0	72.6	80.1
14. Structures	6.3	6.6	6.8	6.7	6.7	6.8	7.0	7.1	7.3	7.3	20.9	8.6	4.5	6.1	6.6	6.9
15. Nondefense	89.3	87.3	88.1	98.1	95.7	91.8	90.3	97.7	95.7	94.8	24.3	-4.3	3.5	94.8	90.7	93.9
16. Durables	4.3	4.4	4.5	4.5	4.6	4.8	4.7	5.0	4.8	4.9	6.4	6.6	7.9	4.1	4.4	4.8
Nondurables	11.1	8.5	8.8	18.0	13.7	9.2	7.3	13.8	10.2	8.6	---	---	---	17.2	11.6	11.0
17. CCC Inventory Change	5.6	2.7	3.7	12.9	8.3	3.6	1.5	7.8	4.2	2.3	---	---	---	11.3	6.2	5.3
18. Other Nondurables	5.5	5.8	5.1	5.1	5.4	5.6	5.8	6.0	6.0	6.3	-11.9	-8.9	6.0	5.9	5.4	5.7
19. Compensation	40.2	40.3	40.4	40.6	42.3	42.6	42.9	43.0	44.6	44.9	6.5	2.0	5.8	39.6	40.4	42.7
20. Other Services	26.6	26.8	27.1	27.5	27.6	27.8	27.9	28.3	28.5	28.6	7.0	2.2	3.3	26.4	27.0	27.9
21. Structures	7.2	7.3	7.3	7.5	7.5	7.4	7.5	7.6	7.6	7.8	-0.3	2.4	7.3	7.4	7.3	7.5
22. Transfer Payments	389.3	394.6	399.0	401.4	405.6	407.7	411.8	415.6	423.5	425.6	7.1	4.1	3.6	380.4	396.1	410.2
23. Grants-in-Aid to State and Local Governments	103.5	106.1	104.9	102.3	101.8	102.0	102.7	100.3	101.5	102.4	5.7	5.3	-2.4	99.0	104.2	101.7
24. Net Interest Paid	135.0	138.2	139.5	141.9	144.5	149.7	152.9	156.5	158.6	161.2	12.9	6.2	8.8	130.6	138.7	150.9
25. Deficit of Government Enterprises	18.0	35.9	30.6	35.5	27.8	25.6	26.4	29.4	25.5	23.4	-2.7	44.8	-9.0	20.7	30.0	27.3
26. Federal Surplus	-201.6	-230.3	-218.5	-219.8	-237.5	-238.3	-233.2	-240.5	-233.9	-232.7	---	---	---	-198.0	-217.6	-237.4
27. Federal Debt Held by Individuals	1443.7	1476.6	1522.8	1547.6	1605.1	1642.2	1704.3	1731.1	1784.3	1823.2	17.0	12.7	11.6	1328.9	1497.7	1670.7
28. Total Government Surplus	-131.6	-169.0	-155.2	-156.6	-172.4	-172.6	-166.0	-176.9	-171.0	-169.3	---	---	---	-136.3	-153.1	-172.0

Table 6.

Georgia State University
College of Business Administration
Economic Forecasting Center
August 1986

Selected Economic Variables of the U.S. Economy for 1986-I and 1986-II with Forecasts for 1986-III through 1988-II

	1986				1987				1988		Percent Change			Annual		
	I	II	III	IV	I	II	III	IV	I	II	84-85	85-86	86-87	1985	1986	1987
Private Economy																
1. Change in Private Hourly Wage Costs	2.9	2.0	3.0	3.3	3.9	3.9	3.8	4.1	6.1	4.3	3.8	3.0	3.6	13.02	13.41	13.89
2. Change in Output Per Worker Hour	0.3	1.2	0.0	1.3	1.3	-1.0	-0.4	-0.2	-0.8	-1.8	0.5	0.5	0.4	21.35	21.45	21.54
3. Change in Implicit Unit Labor Costs	2.6	0.8	3.0	0.1	4.5	4.8	4.3	4.2	6.9	6.1	3.3	2.4	3.3	0.610	0.624	0.645
4. Change in Private Price Deflator	2.2	1.8	2.9	2.7	3.3	4.2	3.8	4.2	3.7	4.4	3.0	2.5	3.3	1.109	1.136	1.173
Prices																
5. Consumer Price Index	327.3	326.2	328.5	331.3	334.3	337.7	341.0	344.4	348.0	351.6	3.5	1.9	3.4	322.1	328.3	339.4
6. Industrial Commod. (Producer Price Index)	319.1	311.5	309.1	310.9	312.6	314.4	315.3	318.0	320.1	322.2	0.4	-3.5	0.8	324.0	312.7	315.1
Corporate Economy																
7. After Tax Profit	135.2	147.6	143.8	159.8	160.0	158.0	163.0	166.3	168.3	178.1	-6.4	11.6	10.4	131.4	146.6	161.8
8. Inventory Profits	16.5	5.9	12.7	-4.6	-4.6	-1.4	-5.9	-10.5	-8.1	-12.8	---	---	---	-0.6	7.6	-5.6
9. Genuine Profits	207.3	204.9	205.8	203.0	200.0	198.9	197.8	194.3	196.3	199.4	11.6	8.7	-3.7	188.9	205.3	197.8
10. Mean Closing Dow Jones	1648.3	1825.1	1765.3	1753.4	1668.9	1695.4	1726.4	1743.9	1859.2	1991.1	12.7	31.6	-2.3	1328.1	1748.0	1708.7
11. Mean Closing NY Composite	126.83	138.43	134.81	132.53	127.16	132.10	132.76	134.62	141.13	145.83	16.9	23.2	-1.1	108.1	133.2	131.7
Financial																
12. Monetary Base	237.6	242.1	247.3	251.9	256.9	262.1	266.4	272.5	276.2	280.6	7.3	7.9	8.1	226.8	244.7	264.5
13. Checkable Deposits	459.3	481.4	501.5	512.9	525.6	535.3	546.6	552.9	566.2	579.0	9.8	14.0	10.5	428.8	488.8	540.1
14. M1	632.2	657.0	679.8	694.2	710.1	722.9	737.1	746.4	762.3	778.4	9.0	12.1	9.5	593.9	665.8	729.1
15. Velocity of M1	6.495	6.305	6.168	6.125	6.086	6.050	6.009	6.007	5.952	5.895	-2.5	-5.9	-3.8	6.667	6.273	6.038
16. M2	2578.6	2645.2	2702.8	2749.5	2806.8	2862.0	2913.5	2960.4	3010.2	3054.4	9.1	7.4	9.1	2484.0	2669.0	2885.7
17. Velocity of M2	1.592	1.566	1.551	1.547	1.540	1.528	1.520	1.515	1.507	1.502	-2.6	-1.8	-2.5	1.593	1.564	1.526
18. Federal Funds	7.83	6.91	6.40	6.53	6.38	6.78	6.43	6.65	6.31	6.02	-20.8	-14.6	-5.2	8.10	6.92	6.56
19. Prime Rate	9.38	8.61	8.05	8.00	8.00	8.17	8.50	8.50	8.12	7.76	-17.5	-14.3	-2.6	9.93	8.51	8.29
20. 6 Month T-Bills	6.95	6.19	5.82	6.02	5.88	6.03	5.81	6.08	5.78	5.59	-22.1	-18.3	-4.7	7.64	6.24	5.95
21. Seasoned AAA Corp.	9.57	9.01	8.85	9.03	8.69	8.84	8.62	8.86	8.39	8.16	-10.5	-19.9	-4.0	11.37	9.12	8.75
22. FHA Mortgage Rates	10.56	10.25	9.97	10.10	9.75	9.93	9.67	9.75	9.51	9.22	-9.9	-17.9	-4.4	12.45	10.22	9.78
Miscellaneous																
23. Housing Starts	2005	1908	1851	1815	1770	1722	1699	1655	1624	1616	-1.1	8.5	-9.7	1746	1895	1712
24. Single Family Starts	1248	1231	1248	1221	1201	1179	1152	1102	1061	1048	-1.9	14.4	-6.3	1082	1237	1159
25. Unit Auto Sales	10.60	11.10	11.10	10.90	11.00	11.00	10.97	9.90	9.60	10.10	7.0	-1.8	-1.9	11.13	10.93	10.72
26. Civilian Employment	108.768	109.225	110.042	110.467	111.078	111.548	112.040	112.462	113.845	113.389	2.1	2.3	2.0	107.170	109.626	111.782
27. Unemployment Rate	7.1	7.2	6.9	7.1	7.0	7.0	7.0	7.0	7.1	7.1	-4.2	-1.9	-0.8	7.2	7.1	7.0
28. Industrial Production	125.6	124.6	124.4	125.1	125.9	125.7	124.5	124.0	123.7	122.2	2.3	0.3	0.1	124.5	124.9	125.0
29. Asset-Consumption Ratio	4.067	4.169	4.173	4.121	4.065	4.057	4.054	4.036	4.071	4.068	-0.2	3.6	-1.9	3.991	4.133	4.053

Table 7.

Georgia State University
College of Business Administration
Economic Forecasting Center
August 1986

U. S. Foreign Trade Accounts for 1985 with Forecasts for 1986 and 1987

	1985	1986	1987	Percent Change 84-85	85-86	86-87
Exports of U.S. Merchandise	212796	215874	228725	-2.3	1.4	6.0
Food & Live Animals	19268	15905	17088	-21.2	-17.5	7.4
Beverages & Tobacco	2958	2973	3098	3.9	0.5	4.2
Crude Materials	16939	16787	19308	-16.3	-0.9	15.0
Mineral Fuels	9971	8452	8538	7.1	-15.2	1.0
Animal & Vegetable Oils	1434	1081	1260	-25.4	-24.6	16.5
Chemicals	21759	22787	24608	-2.6	4.7	8.0
Manufactured Goods	14009	13885	14003	-7.5	-0.9	0.8
Machinery, Trans. Equipment	93939	97236	103200	4.4	3.5	6.1
Miscellaneous Manufacturing	15338	16249	17175	-2.3	5.9	5.7
Commodities, n.e.c.	10960	10948	12070	8.5	-0.1	10.3
Imports of Merchandise	361626	378153	387401	6.0	4.6	2.4
Food & Live Animals	20292	21711	21390	4.5	7.0	-1.5
Beverages & Tobacco	4124	4070	3985	2.9	-1.3	-2.1
Crude Materials	11167	11655	12199	-6.0	4.4	4.7
Mineral Fuels	55843	39944	39239	-11.8	-28.5	-1.8
Animal & Vegetable Oils	730	613	670	-1.6	-16.0	9.3
Chemicals	15321	15745	16278	6.4	2.8	3.4
Manufactured Goods	49500	50957	50908	1.0	2.9	-0.1
Machinery, Trans. Equipment	141721	165063	169493	15.1	16.5	2.7
Miscellaneous Manufacturing	51684	56904	59913	13.9	10.1	5.3
Commodities, n.e.c.	11245	14307	13328	13.2	27.2	-6.8
Foreign Transactions						
Total Exports	369.7	378.5	400.2	-3.4	2.4	5.7
Merchandise Exports	219.6	222.9	235.0	-2.0	1.5	5.4
Factor Income	91.2	92.9	98.7	-9.3	1.9	6.2
Other Services	59.0	62.7	66.6	1.6	6.4	6.2
Total Imports	458.8	472.6	487.6	3.9	3.0	3.2
Merchandise Imports	341.7	362.5	372.9	2.2	6.1	2.9
Factor Income	50.1	52.0	54.4	-5.7	3.8	4.6
Other Services	56.9	58.1	60.3	5.5	2.2	3.8
Transfer	15.0	14.9	15.6	23.2	-1.2	4.7
Government Interest	21.3	23.0	24.6	7.8	7.7	7.1
Net Foreign Investment	-115.2	-131.3	-127.5	---	---	---
Trade Weighted Value of Dollar (3/73=100)	143.3	110.6	99.1	3.6	-22.8	-10.5

Table 8. Economic Forecasting Center August 1986

Implicit Price Deflators for Personal Consumption Expenditures for 1986-I and 1986-II with Forecasts for 1986-III through 1988-II

	1986				1987				1988		Percent Change			Annual		
	I	II	III	IV	I	II	III	IV	I	II	84-85	85-86	86-87	1985	1986	1987
Durable Goods	104.5	104.8	105.3	105.9	106.5	107.0	107.6	108.2	108.8	109.2	0.7	0.6	2.1	104.5	105.1	107.3
% Change	0.8	1.2	1.9	2.3	2.3	1.9	2.3	2.2	2.2	1.5						
Automobiles	109.3	110.6	111.8	112.7	113.5	114.6	115.4	116.6	117.3	117.5	1.9	2.6	3.5	108.3	111.1	115.0
% Change	1.7	4.8	4.6	3.3	2.8	3.9	2.8	4.2	2.4	0.7						
Furniture	98.4	97.6	97.2	97.2	97.3	97.0	97.1	97.4	97.7	97.9	-1.5	-1.7	-0.4	99.3	97.6	97.2
% Change	-0.2	-3.1	-1.6	0.1	0.3	-1.2	0.4	1.1	1.4	0.9						
Other Durables	106.2	106.2	107.1	108.4	109.3	110.2	111.1	112.2	113.2	114.1	1.1	1.3	3.5	105.6	107.0	110.7
% Change	1.8	0.1	3.5	4.7	3.4	3.3	3.3	4.3	3.4	3.2						
Nondurables	108.0	105.8	105.8	106.9	107.5	108.7	109.5	110.8	111.6	112.5	2.4	-0.8	2.3	107.5	106.6	109.1
% Change	-3.3	-7.9	0.0	4.2	2.3	4.5	3.0	4.8	2.9	3.3						
Food	109.9	110.4	111.4	112.5	113.4	114.7	115.8	117.4	118.2	119.1	2.1	2.6	3.8	108.3	111.1	115.3
% Change	0.5	2.1	3.5	4.0	3.3	4.6	3.9	5.7	2.7	3.1						
Apparel	105.8	105.3	105.2	105.9	106.0	106.3	106.8	107.6	108.1	108.3	3.0	-0.7	1.0	106.3	105.6	106.7
% Change	-6.4	-1.9	-0.6	2.8	0.2	1.3	1.8	3.0	2.0	0.6						
Gasoline & Oil	90.4	73.1	68.7	69.4	70.0	71.6	72.1	73.2	73.9	75.2	0.9	-21.5	-4.9	96.0	75.4	71.7
% Change	-22.9	-57.4	-21.7	4.2	3.5	9.0	3.0	6.2	4.0	7.3						
Fuel Oil	87.6	75.3	70.3	72.9	72.9	73.5	72.3	74.3	74.6	75.5	-3.7	-17.4	-4.3	92.7	76.5	73.3
% Change	-28.4	-45.6	-24.0	16.0	0.0	3.1	-6.4	11.7	1.5	5.2						
Other Nondurables	118.3	118.9	119.6	120.4	121.3	122.1	123.0	124.0	125.0	126.1	4.1	3.2	2.8	115.6	119.3	122.6
% Change	3.7	1.9	2.2	2.9	3.0	2.7	2.9	3.3	3.3	3.4						
Services	120.6	121.8	123.1	124.5	125.9	127.5	129.0	130.6	132.3	134.1	5.0	4.5	4.7	117.3	122.5	128.2
% Change	3.9	3.8	4.6	4.5	4.5	5.0	4.9	5.1	5.3	5.5						
Housing	122.2	124.3	125.9	127.7	129.4	131.1	132.8	134.5	136.3	138.2	5.7	6.1	5.5	117.9	125.0	131.9
% Change	4.7	6.9	5.3	5.9	5.4	5.4	5.3	5.2	5.5	5.7						
Electricity & Gas	114.9	113.1	114.4	114.0	114.7	115.1	115.5	115.7	116.6	117.3	2.0	-0.6	1.0	114.8	114.1	115.2
% Change	3.3	-6.2	4.7	-1.5	2.6	1.3	1.5	0.7	3.3	2.4						
Household Operations	119.9	121.6	122.8	124.3	125.8	127.2	128.7	130.1	131.5	133.0	4.2	4.9	4.7	116.4	122.1	127.9
% Change	5.2	5.8	4.2	4.7	4.9	4.5	4.9	4.4	4.4	4.8						
Transportation	112.2	113.5	114.5	115.8	117.3	119.0	120.7	122.8	124.8	126.8	1.4	4.1	5.2	109.5	114.0	120.0
% Change	8.2	4.4	3.6	4.7	5.0	6.2	5.7	7.2	6.7	6.5						
Medical Care	126.7	127.8	129.6	131.7	133.7	135.8	138.1	140.5	142.9	145.5	6.9	5.7	6.3	122.0	128.9	137.0
% Change	4.4	3.5	5.8	6.6	6.2	6.5	6.9	7.2	6.9	7.6						
Other Services	118.2	118.9	119.9	120.8	121.5	122.7	123.8	125.0	126.2	127.5	3.7	3.0	3.2	116.0	119.5	123.3
% Change	1.4	2.4	3.4	3.0	2.3	4.0	3.6	3.9	3.9	4.2						
Personal Consump Exp	113.7	113.4	114.2	115.4	116.4	117.6	118.8	120.2	121.4	122.7	3.4	2.1	3.6	111.9	114.2	118.3
% Change	1.1	-1.1	2.9	4.3	3.5	4.2	4.1	4.8	4.1	4.4						
Consumer Price Index	327.3	326.2	328.5	331.3	334.3	337.7	341.0	344.4	348.0	351.6	3.5	1.9	3.4	322.1	328.3	339.4
% Change	1.4	-1.3	2.9	3.5	3.7	4.1	4.0	4.0	4.2	4.2						

Table 9.

Georgia State University
College of Business Administration
Economic Forecasting Center
August 1986

Implicit Price Deflators with Annual Percentage Changes for 1986-I and 1986-II with Forecasts for 1986-III through 1988-II

	1986				1987				1988		Percent Change			Annual		
	I	II	III	IV	I	II	III	IV	I	II	84-85	85-86	86-87	1985	1986	1987
GNP Deflator	113.5	114.1	114.9	115.8	116.8	118.0	119.1	120.3	121.6	122.9	3.3	2.8	3.5	111.5	114.6	118.6
% Change	2.5	2.1	2.8	3.2	3.5	4.2	3.8	4.1	4.4	4.3						
Personal Cons. Exp.	113.7	113.4	114.2	115.4	116.4	117.6	118.8	120.2	121.4	122.7	3.4	2.1	3.6	111.9	114.2	118.3
% Change	1.1	-1.1	2.9	4.3	3.5	4.2	4.1	4.8	4.1	4.4						
Private Domestic Investment	103.6	103.6	104.2	104.9	105.5	106.1	106.9	107.6	108.4	109.3	1.1	2.0	2.4	102.1	104.1	106.5
% Change	4.4	0.0	2.3	2.7	2.3	2.3	3.1	2.6	3.0	3.4						
Structures	104.4	107.2	108.4	109.3	110.3	111.1	112.1	113.0	113.9	114.9	3.2	5.5	4.0	101.7	107.3	111.6
% Change	4.7	11.2	4.6	3.4	3.7	2.9	3.6	3.3	3.2	3.6						
Producers' Durables	98.4	97.8	98.1	98.7	99.1	99.4	100.0	100.7	101.2	101.6	-0.6	0.1	1.6	98.1	98.3	99.8
% Change	3.3	-2.4	1.2	2.5	1.6	1.2	2.4	2.8	2.0	1.6						
Residential Structures	110.2	111.1	111.9	112.9	113.8	114.9	116.1	117.0	118.2	119.5	1.8	3.0	3.5	108.2	111.5	115.5
% Change	3.0	3.3	2.9	3.6	3.2	3.9	4.2	3.1	4.2	4.5						
Exports	101.5	101.0	100.4	100.9	101.4	102.1	103.1	104.1	105.0	106.1	-1.4	-1.1	1.7	102.0	101.0	102.7
% Change	0.0	-2.0	-2.4	2.0	2.0	2.8	4.0	3.9	3.5	4.3						
Imports	94.6	91.1	90.2	91.7	92.1	93.1	94.1	95.3	96.2	97.3	-2.1	-3.6	1.9	95.4	91.9	93.7
%Change	-4.5	-14.0	-3.9	6.8	1.8	4.4	4.4	5.2	3.8	4.7						
Federal	111.0	112.2	112.7	112.5	114.8	116.1	117.0	117.8	120.5	121.7	2.6	2.4	3.9	109.4	112.1	116.4
% Change	4.8	4.4	1.8	-0.7	8.4	4.6	3.1	2.8	9.5	4.0						
Federal Purchases	107.2	109.0	109.6	109.3	110.3	111.8	113.1	114.0	115.3	116.7	1.2	2.4	3.2	106.2	108.8	112.3
% Change	5.8	6.9	2.2	-1.1	3.7	5.6	4.7	3.2	4.6	4.9						
Federal Value Added	117.2	117.6	117.8	118.3	122.7	123.5	123.8	124.5	129.6	130.5	4.9	2.6	5.0	114.8	117.7	123.6
% Change	1.0	1.4	0.7	1.7	15.7	2.6	1.0	2.3	17.4	2.8						
State & Local	118.8	119.4	120.2	121.5	122.8	124.2	125.5	127.0	128.4	130.0	5.3	3.4	4.1	116.0	120.0	124.9
% Change	2.7	2.0	2.7	4.4	4.3	4.6	4.3	4.9	4.5	5.1						
State & Local Purchases	110.9	110.2	109.8	110.9	112.1	113.1	114.3	115.7	117.0	118.4	3.8	0.4	3.0	110.0	110.5	113.8
% Change	-1.4	-2.5	-1.4	4.1	4.4	3.6	4.3	5.0	4.6	4.9						
State & Local Value Added	124.5	126.3	127.9	129.4	130.8	132.4	133.9	135.4	137.0	138.7	6.5	5.6	4.8	120.3	127.0	133.1
% Change	5.7	5.9	5.2	4.8	4.4	5.0	4.6	4.6	4.8	5.1						

Table 10.

Georgia State University
College of Business Administration
Economic Forecasting Center
August 1986

Consumption Details for 1986-I and 1986-II with Forecasts for 1986-III through 1988-II

	1986				1987				1988		Percent Change			Annual		
	I	II	III	IV	I	II	III	IV	I	II	84-85	85-86	86-87	1985	1986	1987
CURRENT DOLLARS																
Durable Goods	360.8	374.7	378.9	381.9	385.6	388.9	391.4	387.1	385.1	392.4	8.5	4.1	3.8	359.3	374.1	388.3
Motor Vehicles & Parts	163.5	173.6	176.0	177.2	179.8	182.4	183.8	177.8	175.1	181.4	9.5	2.0	4.9	169.2	172.6	181.0
Furniture	132.1	134.3	135.3	136.0	136.3	136.1	136.3	136.8	137.0	137.2	6.6	6.0	1.5	126.8	134.4	136.4
Other	65.3	66.7	67.6	68.7	69.5	70.4	71.3	72.5	73.0	73.8	9.5	6.0	5.7	63.3	67.1	70.9
Nondurable Goods	929.7	926.0	929.2	943.1	956.5	969.3	980.8	996.4	1008.7	1022.7	4.0	3.0	4.7	905.1	932.0	975.8
Food	484.6	489.5	495.1	502.1	510.1	517.3	524.2	532.4	539.3	546.8	4.3	5.0	5.7	469.3	492.8	521.0
Clothing & Shoes	161.3	163.8	164.4	166.5	168.5	169.9	171.3	174.2	175.7	177.6	5.4	5.7	4.3	155.2	164.0	171.0
Gas & Oil	87.6	77.0	72.1	72.7	73.4	74.5	75.2	76.2	77.1	78.4	1.4	-15.9	-3.3	92.0	77.4	74.8
Fuel Oil & Coal	14.9	14.0	13.0	13.2	13.2	13.3	13.3	13.6	13.8	13.9	-12.3	-12.4	-3.1	15.7	13.8	13.4
Other	181.3	181.7	184.6	188.2	191.3	194.3	196.8	200.0	202.8	206.0	5.2	6.4	6.3	172.9	184.0	195.6
Services	1407.4	1429.4	1457.0	1483.5	1507.9	1535.9	1565.1	1594.8	1623.4	1655.4	8.9	8.1	7.4	1336.1	1444.3	1550.9
Housing	424.8	434.6	442.9	451.8	460.4	469.1	477.8	486.6	495.9	505.4	8.5	8.6	8.0	403.9	438.5	473.5
Household Operations Gas & Electric	86.3	85.6	89.0	90.6	89.8	90.1	91.7	93.6	93.9	94.8	6.0	2.3	3.9	89.9	87.9	91.3
Household Operations Other	88.0	90.1	91.4	92.7	94.2	95.5	96.9	98.2	99.4	100.7	4.0	6.4	6.2	85.1	90.6	96.2
Transportation	93.5	95.2	96.4	98.1	99.9	101.9	103.8	106.0	108.1	110.2	10.2	6.0	7.4	90.4	95.8	102.9
Medical Care	307.9	312.7	319.1	326.2	332.9	340.5	348.4	356.9	365.5	375.0	10.2	9.1	8.9	290.1	316.5	344.7
Other	406.9	411.2	418.2	424.1	430.7	438.8	446.5	453.5	460.6	469.3	10.4	9.7	6.6	378.4	415.1	442.4
CONSTANT DOLLARS																
Durable Goods	345.4	357.5	359.7	360.5	362.1	363.4	363.9	357.6	354.0	359.2	7.8	3.5	1.7	343.9	355.8	361.8
Motor Vehicles & Parts	149.6	157.0	157.4	157.2	158.4	159.2	159.3	152.5	149.3	154.4	7.3	-0.6	1.3	156.2	155.3	157.4
Furniture	134.3	137.6	139.2	139.9	140.1	140.3	140.4	140.5	140.2	140.1	8.3	7.8	1.9	127.8	137.8	140.3
Other	61.5	62.8	63.1	63.4	63.6	63.9	64.2	64.6	64.5	64.7	8.3	4.7	0.8	59.9	62.7	63.2
Nondurable Goods	860.6	875.5	878.5	882.6	889.4	892.1	895.8	899.1	903.8	909.1	1.6	3.9	2.3	841.7	874.3	894.1
Food	441.1	443.2	444.4	446.3	449.8	451.0	452.7	453.5	456.3	459.1	2.2	2.4	1.8	433.4	443.8	451.8
Clothing & Shoes	152.4	155.5	156.3	157.2	159.0	159.8	160.4	161.9	162.5	164.0	2.3	6.4	3.2	146.0	155.4	160.3
Gas & Oil	96.9	105.4	104.9	104.7	104.8	104.1	104.3	104.1	104.3	104.2	0.5	7.5	1.3	95.8	103.0	104.3
Fuel Oil & Coal	17.0	18.5	18.5	18.1	18.1	18.1	18.4	18.3	18.5	18.4	-8.9	6.3	1.0	17.0	18.1	18.2
Other	153.2	152.8	154.4	156.3	157.7	159.1	160.0	161.3	162.2	163.4	1.1	3.1	3.5	149.5	154.2	159.5
Services	1166.6	1173.9	1183.2	1191.4	1197.7	1205.1	1213.5	1221.3	1227.3	1234.9	3.7	3.5	2.6	1139.0	1178.8	1209.4
Housing	347.6	349.7	351.8	353.8	355.8	357.8	359.8	361.8	363.8	365.7	2.7	2.4	2.3	342.7	350.7	358.8
Household Operations Gas & Electric	75.1	75.7	77.8	79.5	78.3	78.3	79.4	80.9	80.5	80.8	3.9	-1.7	2.9	78.4	77.0	79.2
Household Operations Other	73.4	74.1	74.4	74.6	74.9	75.1	75.3	75.5	75.6	75.7	-0.2	1.4	1.5	73.1	74.1	75.2
Transportation	83.3	83.9	84.2	84.7	85.2	85.6	86.0	86.3	86.6	86.9	6.7	3.8	2.1	81.0	84.0	85.8
Medical Care	243.0	244.7	246.2	247.7	249.0	250.7	252.3	254.0	255.8	257.7	3.0	3.2	2.5	237.8	245.4	251.5
Other	344.3	345.3	348.8	351.1	354.5	357.6	360.7	362.8	365.0	368.1	5.3	6.6	3.3	326.1	347.5	358.9

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